



MINNESOTA STATE LOTTERY

Comprehensive Annual Financial Report

An Enterprise Fund of the State of Minnesota

For the Fiscal Year Ending June 30, 2016

**Prepared by
Joe Pahl
Chief Financial Officer
Finance Department**

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INTRODUCTORY SECTION

December 27, 2016

Mr. Mike Vekich
Executive Director
Minnesota State Lottery
2645 Long Lake Road
Roseville, Minnesota 55113



INTRODUCTION

I am pleased to transmit to you the Comprehensive Annual Financial Report of the Minnesota State Lottery for fiscal year ending June 30, 2016. The Finance Division of the Lottery prepared this report, which provides information about the Minnesota State Lottery, an agency of the State of Minnesota.

The Minnesota State Lottery was created in July 1989 pursuant to authority granted by the Minnesota Legislature. The Lottery is operated as a business enterprise within the framework of State laws and regulations. The Lottery's mission is to “offer fun, innovative and secure games that provide responsible and ethical entertainment.” This mission is being performed with the utmost integrity to ensure public confidence in the Lottery.

The Lottery is an enterprise fund of the State of Minnesota and is included in the State's Comprehensive Annual Financial Report. Lottery activity is reported using the enterprise fund type. The fund includes all activity for which the Minnesota State Lottery is financially accountable. No data related to any other State agency or fund is included.

The accuracy of the financial data and the completeness of the presentation, including all disclosures, is the responsibility of the Minnesota State Lottery. To the best of my knowledge and belief, the data is accurate and is reported in a manner designed to fairly present the financial position, results of operations and cash flows of the Minnesota State Lottery. Included are all disclosures necessary to gain an understanding of the Lottery's financial activities.

LOTTERY INDUSTRY

In 1964, New Hampshire established the first state-run lottery to raise money for education. New York followed in 1967. Since then, there have been significant advancements in lottery gaming. In 1971, Automated Wagering implemented the world's first lotto gaming system in New Jersey and Scientific Games developed the first secure Scratch ticket in 1973. In 1988, the New York Lottery introduced Keno; then, South Dakota became the first state in the United States to license and regulate video lottery games in 1989. The Minnesota Lottery awarded the first Electronic Instant Ticket contract in February 2014. With the technology in place and lotteries becoming more accepted throughout the United States, there has been a rapid expansion of lotteries and available lottery games. As of June 30, 2016, forty-four states plus the District of Columbia, Puerto Rico and the US Virgin Islands operate a lottery.

LOTTERY PROFILE

Minnesota voted to amend the Minnesota Constitution in 1988 to authorize a state-run lottery. In 1989, the Minnesota Legislature approved lottery legislation establishing the 33rd lottery in the country. The Minnesota State Lottery launched its first scratch game on April 17, 1990. Currently, Lottery net proceeds and proceeds from the in-lieu-of-sales tax on lottery tickets sales are dedicated to the General Fund, which includes funds dedicated to the Department of Human Services for the treatment and prevention of problem gambling; the Environment and Natural Resources Trust Fund, the Game and Fish Fund and the Natural Resources Fund are used to enhance our State's natural resources including fish and game, parks, trails and zoos as well as public education, local government assistance, public safety and other programs. Through fiscal year 2016, the Minnesota State Lottery has provided over \$2.6 billion to its beneficiaries.

ECONOMIC CONDITION AND OUTLOOK¹

Well into the current economic expansion, Minnesota continues to add jobs at a fairly steady rate. Consistent job growth has contributed to the state's declining unemployment rate, which is now at 4.0 percent on a seasonally adjusted basis, 0.6 percentage points below the current U.S. rate. At the same time, the state's employment growth is seeing the effects of drags on exports and a tightening labor market. Total non-farm employment in Minnesota grew 1.0 percent in fiscal year 2016 and is forecast to accelerate slightly to 1.2 percent growth in fiscal year 2017. Employment growth is forecast to decelerate to 0.8 percent in fiscal year 2018 followed by 1.0 percent growth in fiscal year 2019.

Information from the Bureau of Economic Analysis, Quarterly Census of Employment and Wages (QCEW), and income tax withholding collections suggests Minnesota's nominal wage and salary disbursements grew 3.2 percent in fiscal year 2016. Wage income is now expected to accelerate to 5.3 percent growth in fiscal year 2017, followed by 4.7 percent in each of fiscal years 2018 and 2019. Minnesota personal income grew 2.0 percent in fiscal year 2016, and is now forecast to accelerate to 4.6 percent in fiscal year 2017, followed by 4.6 percent and 4.7 percent in fiscal year 2018 and 2019, respectively.

Minnesota's housing recovery continued to gain traction from its excellent performance in CY 2015, and as we approach the end of CY 2016, homebuilding activity is encouraging. As of October 2016, closed sales of homes in Minnesota preserved its good performance, reaching an 11-year high. Also encouraging are rising median and mean sales prices. According to the Minnesota Association of Realtors, in October 2016 the median sales price in the state rose 8.5 percent, while the average sales price increased 6.1 percent.

As the labor market continues to tighten and wages continue to grow, more people will be looking for long-term stable housing, increasing household formations, a key driver of demand for housing. Increasing formations foster housing sales and starts. After six years of low levels, annual household formations have picked up to 18,000 in calendar year 2015, consistent with continued employment growth. In calendar years 2016 and 2017, annual net new formations are forecast to be around 25,700 and 21,600, respectively. The 30-year fixed mortgage rate has risen to 4.16 percent at the end of November. Even though this is still low relative to historic norms, if rates keep moving up, it could affect demand for homes.

¹ Provided by the Minnesota Department of Revenue

A global economic slowdown and a stronger U.S. dollar relative to major trading partners make Minnesota-produced goods and commodities more expensive elsewhere in the world, reducing demand for the state's products abroad. Exports of Minnesota manufactured goods have fallen over the last year, and manufacturing employment has declined. In the current forecast, we expect improvements in global growth to lead Minnesota manufacturers to add jobs starting in 2018. Minnesota's exports of goods and services to countries throughout the world are an important source of economic strength. According to data from the Minnesota Department of Employment and Economic Development for the second quarter of calendar year 2016, Minnesota exports, including agricultural, mining and manufactured products, were valued at \$4.8 billion, showing a decline of 8.0 percent since the second quarter of calendar year 2015, which is 2.0 percent more than the national decline of exports over the same period.

FINANCIAL INFORMATION

Enterprise Operations: The Minnesota State Lottery operates only enterprise activities, namely sales of lottery tickets to the general public and the related supporting functions of administration, marketing, finance, security, licensing and data processing. No general government functions or operations are managed by the Lottery. Operating revenues in fiscal year 2016 were \$593 million.

Budgetary Controls: Budgetary controls for the Minnesota State Lottery are addressed through state laws that provide specific limitations on operation and administrative expenses. For budgetary purposes, the Minnesota State Lottery is classified as an unappropriated special revenue fund. An estimate of expected expenditures is filed annually with the Minnesota Management and Budget and is monitored throughout the year. In addition, Lottery financial management staff monitors compliance with Lottery statutes.

Debt Administration: The prize structure of certain scratch games operated solely by the Lottery includes prizes in the form of lifetime annuities. Since 1991, the Lottery has awarded twenty seven scratch and lotto game annuity prizes. Prior to fiscal year 2004, the Lottery had elected to fund payment of these annuities through the purchase of long-term investments consisting of zero-coupon government securities. The prize annuity obligations were recognized as liabilities equivalent to the estimated present value of the future prize payments discounted at interest rates for government securities. In fiscal year 2004, the Lottery sold the investments used to fund these prizes and purchased lifetime annuities in each winner's name to satisfy its obligation related to the lifetime annuity prizes.

Cash Management: Minnesota Statutes, Section 349A.10, Subdivision 7(a), requires the Lottery to transfer all excess funds to a Lottery cash flow account in the State Treasury. Funds in this account earn interest that is credited monthly to the Lottery's account. Treasury cash is invested by the State Board of Investment. Cash on deposit in the State Treasury and with financial institutions are insured. Cash on deposit with banks are covered up to \$250,000 per institution by the Federal Depository Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC insurance limit. As a result, the financial institutions are required to pledge collateral to the Lottery in an amount equal to the funds in excess of the FDIC insurance limit.

Risk Management: The Lottery participates in the State's Risk Management Fund for property, liability, crime and automobile insurance coverage. The Lottery pays annual premiums for this coverage. The State's Risk Management Fund covers all claims above the deductible, see note 9 in the financial section.

Internal Control Environment: Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that the accounting system allows compilation of accurate and timely financial information. Internal controls are subject to inherent limitations the most basic of which are the costs versus the benefits of each control: The structure is designed to provide reasonable rather than absolute assurance that the financial statements are free from any material misstatements.

To enhance controls over accounting procedures, the Lottery has segregated the following functions: human resources and payroll, purchasing, accounts payable and accounts receivable, and general ledger. Data input and processing are separate from system programming and management provides approval and oversight. In addition, external auditors review certain areas of operation in conjunction with their internal control and financial statement audit and report their findings to the Lottery's Executive Director.

Since the Lottery manages valuable ticket inventory, controls lotto gaming materials and monitors the disbursement of prizes, the following steps are taken to ensure the integrity and accountability of the Lottery's operations:

- Hiring specialized security and law enforcement staff.
- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, contractors and Lottery employees.
- Printing and approving Lottery tickets that have special inks, dyes and security codes.
- Providing detailed procedures for all games and lotto games' drawings.
- Hiring an independent CPA firm to witness, audit and certify the drawings.
- Providing and monitoring physical & logical access controls to the computer systems.

As of June 30, 2016, the Lottery has 139 permanent, full-time (equivalent) employees distributed among the Roseville headquarters and the four regional offices.

LOTTERY PRODUCTS

The Minnesota State Lottery has introduced 18 lotto games since its inception and numerous scratch games. In fiscal year 2016, the Lottery introduced total of 72 new scratch games. At the end of the fiscal year, the Minnesota State Lottery provided players the opportunity to participate in eight types of lotto games, including nine types of Progressive Print-N-Play® Games and a variety of scratch games.



Daily 3®, Minnesota's first and longest running game, is a lotto game introduced in August 1990. Players choose three numbers from 0 to 9, the type of play and amount to wager. There are eight different ways to play and a player can win by matching one, two or all three numbers with wagers ranging from \$.50 to \$5. Depending on type of play, prizes range from \$5 to \$500. Drawings are held seven days a week. Daily 3 sales are approximately 2.8 percent of total fiscal year 2016 sales.



Print-N-Play® games were developed and introduced in 2004. The games combine the instant win aspect of scratch games with the look of a lotto game. Generated by the lotto terminal, the tickets are quick to produce and easy to redeem since players do not have to wait for a future drawing to see if they win. In fiscal year 2011 Print-N-Play was changed to Progressive Print-N-Play. Three popular games are available (Bingo, Crossword

and Slots) in price points of \$1, \$3 and \$5. Each game shares the progressive rolling jackpot in addition to instant cash prizes. The jackpot starts at \$5,000 and progressively grows higher with each ticket sold. Progressive Print-N-Play sales are approximately 1.9 percent of total fiscal year 2016 sales.



Gopher 5[®] is a lotto game introduced in May 1991 and most recently revised in October 2008, by increasing the weekly drawings from 2 to 3. Players can select five numbers from 1 to 47 and win by matching two, three, four or all five of the numbers drawn. The prizes awarded for the grand prize, matching the five numbers selected, are determined on a pari-mutual basis starting at \$100,000 in the grand prize pool. In addition, prizes of \$500, \$15 and \$1 are awarded for matching 4 of 5 numbers, 3 of 5 numbers and 2 of 5 numbers, respectively. Each ticket costs \$1 per play, per draw, and drawings are held three times weekly on Monday, Wednesday and Friday. Gopher 5 sales are approximately 2.5 percent of total fiscal year 2016 sales.



Hot Lotto[®] was launched on April 7, 2002 and was revised on May 12, 2013. Hot Lotto jackpots start at \$1 million and grow in \$50,000 increments until the guaranteed jackpot is fully funded and then grows, based on sales, until the jackpot is won. In addition, there are eight secondary prizes of fixed amounts ranging from \$2 to \$30,000. Each ticket costs \$1 per play, per draw. Players must choose the first 5 numbers from a set of 47 numbers and 1 number from a set of 19 for the Hot Ball. Players win the jackpot by matching all five numbers plus the Hot Ball. Previous to the revision, prizes ranged from \$2 to \$10,000 and players chose five numbers from a set of 39 plus one Hot Ball (from set of 19). Drawings take place twice weekly on Wednesday and Saturday preceding the Powerball[®] drawing. Hot Lotto sales are approximately 1.5 percent of total fiscal year 2016 sales.



Hot Lotto[®] Sizzler was launched on January 3, 2008. For an extra \$1 per Hot Lotto purchase, players can triple their prizes (eight set prizes not including the jackpot). A non-jackpot Hot Lotto winner can triple their prizes up to \$90,000. Drawings take place twice weekly on Wednesday and Saturday preceding the Powerball drawing. Hot Lotto[®] Sizzler sales are 0.2 percent of total fiscal year 2016 sales.



Northstar Cash[®] was introduced on October 7, 2003. For \$1, players select five numbers from 1 to 31 for a chance to win the jackpot that starts at \$25,000 and grows until won. The jackpot is paid in cash and if there is more than one winner, the jackpot is divided up equally among all winning tickets. In addition, prizes of \$50, \$5 and \$1 are awarded for matching 4 of 5 numbers, 3 of 5 numbers and 2 of 5 numbers, respectively. Drawings are held seven days a week immediately following the Daily 3 drawing. Northstar Cash sales are approximately 1.7 percent of total fiscal year 2016 sales.



Introduced in 1992, Powerball[®] is a lotto game sold by 47 lotteries. Players pick five numbers from 1 to 69 and one number from 1 to 26 (the Powerball). Players win the jackpot by matching all five numbers plus the Powerball. Jackpots begin at \$40 million, increasing by a minimum of \$10 million each draw and grow until won. The jackpots are paid either in a cash lump sum equal to the discounted

present value of the annuitized jackpot amount or 30 annual payments (graduated) over 29 years. In addition, there are eight secondary fixed prizes ranging from \$4 to \$1 million.

Powerball has gone through several revisions, including the latest in fiscal year 2016. On October 4, 2015, Powerball matrix was changed to delivering bigger and faster growing jackpots while improving the odds of winning a prize to 1 in 24.87. The matrix change included adding ten white balls (the first five numbers) and decreasing the red balls (the Powerball number) by nine. Third prize level was also increased from \$10,000 to \$50,000. The matrix change saw immediate results. In January, the Powerball jackpot reached a record \$1.5 billion. Drawings are held twice weekly on Wednesday and Saturday. Powerball sales are approximately 16.1 percent of total fiscal year 2016 sales.



Introduced in March 2001, Power Play[®] is an enhancement to Powerball. For an extra \$1 per Powerball purchase, players can win larger fixed prizes ranging from \$8 to \$2 million. The Power Play prize structure was revised on January 22, 2014. The multiplier option was reintroduced. The Match 5 prize doubles with Power Play and amount of other fixed prizes grow by 2x, 3x, 4x, 5x, and sometimes 10x for special promotions. Power Play sales are approximately 0.5 percent of total fiscal year 2016 sales.



Introduced on January 31, 2010, Mega Millions[®] is sold in 46 lotteries under a joint selling agreement with the Mega Millions group. The Mega Millions prize structure was revised on October 19, 2013. Mega Millions' jackpot starts now at \$15 million and grows based on sales, until someone wins. In addition, there are eight secondary prizes of fixed amounts ranging from \$1 to \$1,000,000. Each ticket costs \$1 per play, per draw, and players must pick five numbers from 1 to 75 and one Mega Ball[®] number from 1 to 15. Players win the jackpot by matching all five numbers plus the Mega Ball. The payment of jackpots is either in a cash lump sum equal to the discounted present value of the annuitized jackpot amount or 30 annual payments (graduated) over 29 years. Drawings take place twice weekly on Tuesday and Friday. Mega Millions sales are approximately 2.9 percent of total fiscal year 2016 sales.



Megaplier[®] was launched on January 31, 2010 with Mega Millions and was amended on October 22, 2013. For an extra \$1 per Mega Millions purchase, players can multiply their non-jackpot prizes by 2x, 3x, 4x or 5x (up to \$5,000,000). Drawings take place twice weekly on Tuesday and Friday. Megaplier sales are 0.2 percent of total fiscal year 2016 sales.



All or Nothing[™] was launched on January 28, 2014 in Iowa and Minnesota. Game is a twelve (12) out of twenty-four (24) online Lotto game drawn twice a day, seven days a week. All or Nothing offers 10 ways to win, with the \$100,000 top prize at the two extremes – for matching all of the numbers or none of the numbers– and smaller prizes for matching some of the numbers. Players can win the game's second prize of \$1,000 for matching 11 of the winning numbers or just one. The \$20 prize level is for those who match 10 numbers or two; the \$5 level is for those who match nine numbers or three; and players will win \$1 for matching eight of the numbers or four. All or Nothing sales in fiscal year 2016 are 0.5 percent of total sales.



In fiscal year 2015 Minnesota have joined 16 other states in offering the Lucky for Life game that was launched on January 27, 2015. Tickets cost \$2 per play and players have to match five numbers from 1 to 48 and one Lucky Ball number from 1 to 18 to win jackpot prize \$1,000 a day for life. Winners who match the five numbers get \$25,000 a year for life. Other prizes range from \$4 for matching only the Lucky Ball, to \$5,000 for matching four numbers plus the Lucky Ball. Lucky for Life sales in fiscal year 2016 are 1.3 percent of total

sales.



The Lottery introduced its first raffle game in fiscal year 2007. The Minnesota Millionaire Raffle[®] is a lotto game that was established to sell 500,000 \$10 tickets. In fiscal year 2014, the number of tickets were increased to 700,000, each with a unique six-digit number between 000001 and 700000 issued via the

Lotto terminal. On the draw date, tickets matching the numbers drawn win a range of cash and non-cash prizes including two grand prizes of \$1,000,000 each. Minnesota Millionaire Raffle sales are approximately 1.2 percent of total sales in fiscal year 2016.



The Lottery launched its first scratch game on April 17, 1990. Players play by scratching off the latex covering the ticket play area. There are different ways to win a

scratch game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total. If the correct combination appears, the player wins the corresponding prize listed for the specific game. Scratch games offer a wide variety of game themes and were the first products offered to lottery players. Ticket costs range from \$1 to \$50. Scratch games provided approximately 66.6 percent of total fiscal year 2016 sales.



On February 6, 2014, Minnesota became the first state to offer Electronic Instant Tickets (EIT). EIT games are similar to scratch games except players purchase tickets through the internet via their personal computers, tablets or smart phones and scratch the tickets

virtually. Different EIT games were offered with ticket costs between \$1 and \$3 with prizes ranging from \$1 to \$20,000. For fiscal year 2015 EIT games were suspended by the state legislature and the games ended in September 2015. EIT games provided less than 0.1 percent of total sales in fiscal year 2016.

LOTTERY BENEFICIARIES

In fiscal year 2016, the Minnesota State Lottery transferred more than \$144.7 million to the State of Minnesota. The state Legislature had determined that the money is to be distributed as follows:

General Fund: 60 percent of the lottery net proceeds, 100 percent of the unclaimed prizes and 27.6 percent of in-lieu-of-sales taxes were transferred to the state General Fund in fiscal year 2016. Public education, local government assistance and public safety are just a few of the programs that receive funding from the General Fund. In fiscal year 2016, \$76.8 million was transferred to the General Fund.

Environment and Natural Resources Trust Fund: 40 percent of the lottery net proceeds were dedicated to the Environment and Natural Resources Trust Fund, a permanent fund established in the Minnesota Constitution. The Constitution requires that the Trust Fund receive lottery proceeds through December 2024. Lottery proceeds are the primary source of funds used to build the

principal of the Trust Fund; the Minnesota Constitution provides up to 5.5 percent of the market value of the fund, which can be utilized for projects each year. The Trust Fund is used to fund projects of long-term benefit to Minnesota's environment and natural resources and is administered by the Legislative Citizen's Commission on Minnesota Resources. For the fiscal year 2016 and 2017 biennium, the Legislature appropriated \$46.3 million each year for funding from the Environment and Natural Resources Trust Fund. In fiscal year 2016, 79 appropriations were signed into law:

- Foundational Natural Resource Data and Information (\$8.0 million)
- Water Resources (\$7.8 million)
- Environmental Education (\$2.3 million)
- Aquatic and Terrestrial Invasive Species (\$5.9 million)
- Air Quality, Climate Change, and renewable Energy (\$2.1 million)
- Methods to Protect, Restore, and Enhance Land, Water, and Habitat (\$4.5 million)
- Land Acquisition, Habitat , and Recreation (\$7.2 million)
- Contract Agreement Reimbursement and Grants Management System (\$210 thousand)

Since 1991, the Environment and Natural Resources Trust Fund has provided approximately \$500 million to approximately 1,000 projects around the state. In fiscal year 2016, \$38.3 million was transferred to the Environment and Natural Resources Trust Fund.

Game and Fish Fund: 36.2 percent of the lottery's in-lieu-of-sales tax was dedicated to the Game and Fish Fund for activities that improve, enhance or protect fish and wildlife resources, including conservation, restoration and enhancement of land, water and other natural resources of the state. In fiscal year 2016, the Lottery transferred \$14.0 million to the Game and Fish Fund.

Natural Resources Fund: 36.2 percent of the lottery's in-lieu-of-sales tax was dedicated to the Natural Resources Fund for state and Twin Cities metropolitan area parks and trails, local trails and the Minnesota Zoological Garden, Como Zoo and Duluth Zoo. In fiscal year 2016, the Lottery transferred \$14.0 million to the Natural Resources Fund.

Compulsive Gambling: In fiscal year 2016, the lottery contributed \$1.6 million to the Department of Human Services for problem gambling treatment and prevention.

ACCOMPLISHMENTS AND SIGNIFICANT EVENTS

In fiscal year 2016, the Minnesota State Lottery:

- Achieved record scratch and lotto sales of \$394.8 million and \$198.1 million respectively, for a total of \$592.9 million (8.4% more than fiscal year 2015).
- Paid out prizes of \$365.9 million, a 61.7 percent payout.
- Paid retailers \$35.6 million in commissions and incentives.
- Transferred \$144.7 million to State of Minnesota beneficiaries, the highest on record. Funds were transferred as follows:
 - The General Fund received \$76.8 million.
 - The Environment and Natural Resources Trust Fund received \$38.3 million.
 - The Game and Fish Fund received \$14.0 million.
 - The Natural Resources Fund received \$14.0 million.
 - The Problem Gambling Fund received \$1.6 million.

- Successfully launched new on-line gaming system that will modernize Minnesota Lottery sales and marketing approach at retail. New equipment, digital vending machines and software upgrades will significantly increase retailer and customer satisfaction and operational efficiencies.
- Successfully negotiated a new Scratch Games vendor contract that will provide guidance and expertise in design, research, marketing and product innovation to help drive sales.

The Minnesota State Lottery has generated over \$2.7 billion for the State of Minnesota since sales began on April 17, 1990, with proceeds enhancing the state's quality of life.

GFOA CERTIFICATE OF ACHIEVEMENT

For thirteen years in a row, the Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the Minnesota State Lottery for its Comprehensive Annual Financial Report (CAFR). In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

FUTURE LOTTERY PROJECTS

- The Minnesota Lottery will be going to paperless billing and will provide retailer billing statements and other retailer resources through the Retailer Services Portal. This is in support of the green initiative as well as a cost savings measure that will save the Minnesota Lottery over \$80,000 annually in supplies alone.
- The Minnesota Lottery will be eliminating the use of Activate/Settle cards in its packs of Scratch Tickets. This will require a programming and training effort on the part of the Lottery, but will save over \$500,000 in Scratch Ticket costs over the life of the six year contract with Pollard Banknote.

INDEPENDENT AUDIT

Minnesota Statutes require an annual audit by an independent certified public accountant. The independent auditor's opinion on the Lottery's financial statements for the year ending June 30, 2016 is included in the Financial Section of this report.

ACKNOWLEDGEMENTS

A special note of thanks to the Finance Department including: Jennifer Evangelista, Steffany Davis, Mario Ricci, Tatyana Stewart, Joan Theisen, John Rugroden and Jennifer Schelin. Without the efficiency and dedication of the entire Finance Department, preparation of this report would not be possible.

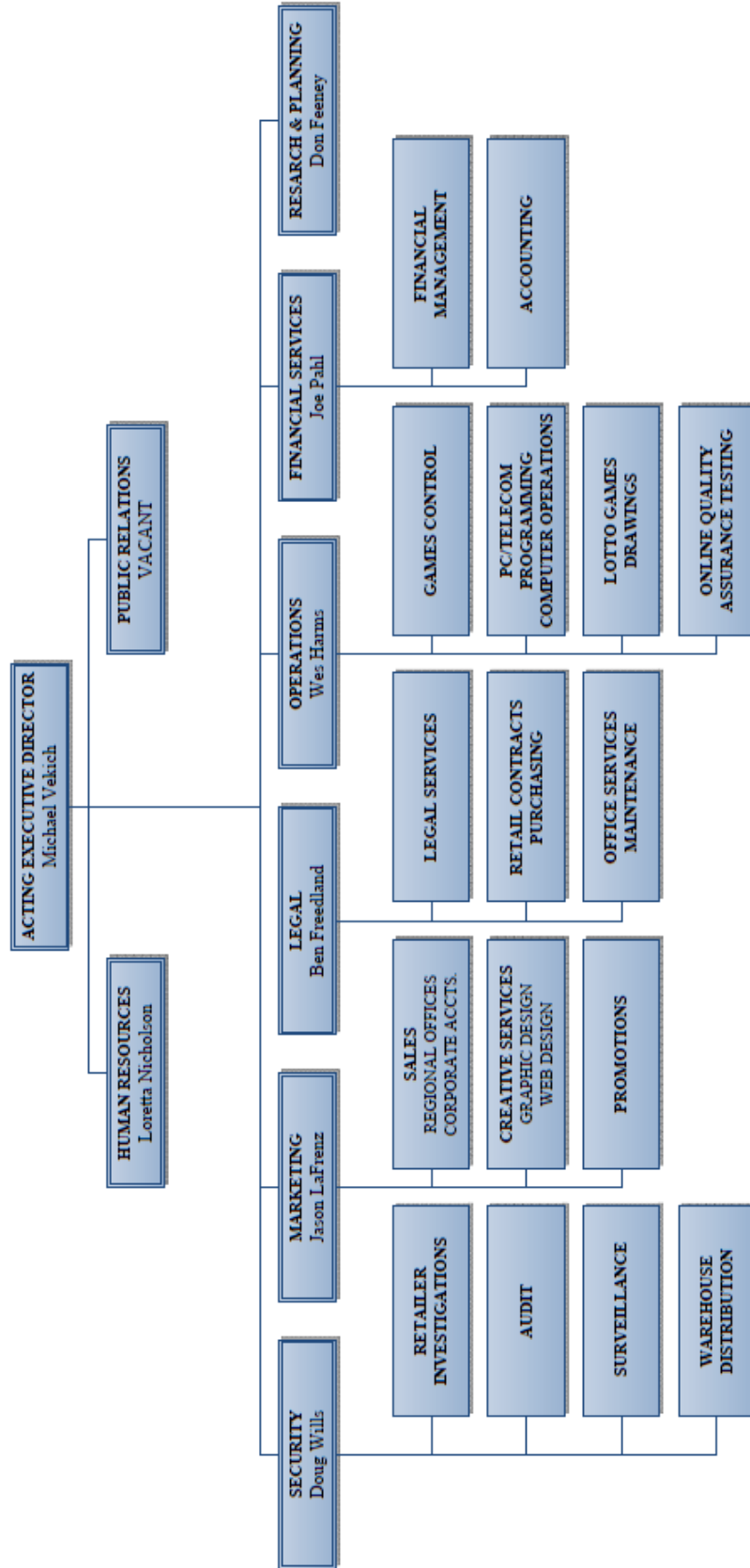
Publishing this Comprehensive Annual Financial Report reflects the Finance Department's commitment to maintaining the Minnesota State Lottery's financial statements and record-keeping systems in conformance with the highest standards of accountability.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'J. Pahl', with a stylized flourish at the end.

Joe Pahl
Chief Financial Officer

Minnesota Lottery Organizational Chart





Government Finance Officers Association

**Certificate of
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Presented to

Minnesota State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

The Director
Minnesota State Lottery
Roseville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota State Lottery as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Minnesota State Lottery's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Minnesota State Lottery, as of June 30, 2016 and 2015, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Minnesota State Lottery, an Enterprise Fund of the State of Minnesota, and do not purport to, and do not, present fairly the financial position of the State of Minnesota, as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's* discussion and analysis on pages 2 through 6 and Schedule of Minnesota State Lottery's Share of Net Pension Liability and Schedule of Minnesota State Lottery's Contributions on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section and statistical section are presented for purposes of additional

analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 on our consideration of the Minnesota State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Minnesota State Lottery's internal control over financial reporting and compliance.

*Schochta Dorpen Kanter
Anderson & Sullivan PLLC*

September 30, 2016

MINNESOTA STATE LOTTERY
MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Financial Statements

This discussion and analysis includes an overview of financial activities regarding the financial performance of the Minnesota State Lottery for the fiscal year ended June 30, 2016 and should be read in conjunction with the transmittal letter and supplementary information included in this report. This report consists of three parts: management’s discussion and analysis, the basic financial statements and the notes to the financial statements. Included below and on the following pages are the financial highlights, summary of contributions to the State, summary results of operations for years ended June 30, 2016 and 2015 and a condensed version of the balance sheets as of June 30, 2016, and 2015.

Financial Highlights

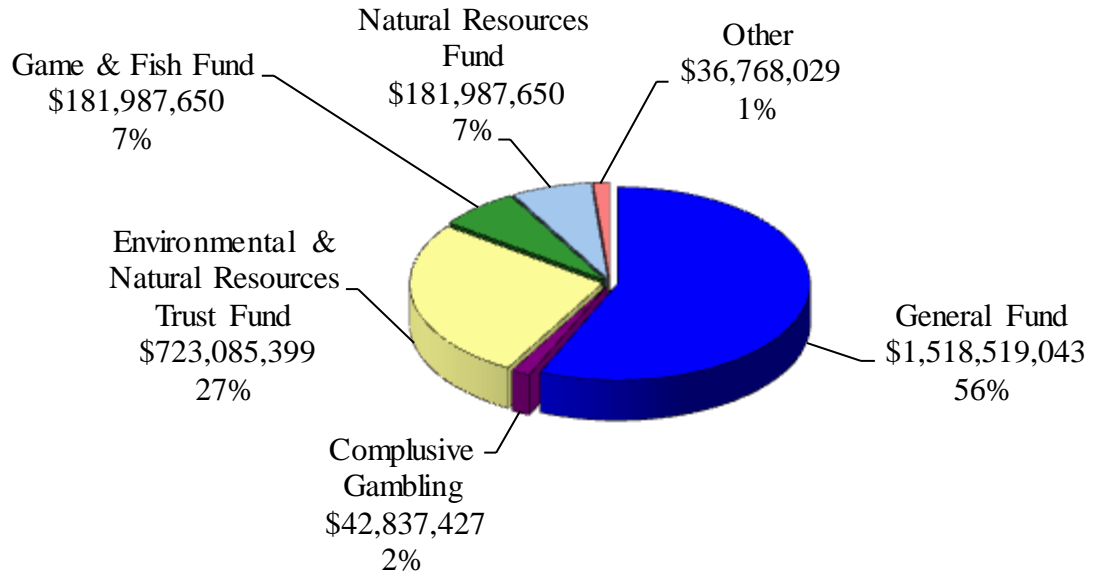
Fiscal year 2016 was a record year for the Lottery. Operating revenue was \$592.9 million, which was \$46.0 million higher, or an 8.4 percent increase from fiscal year 2015. This fiscal year saw record sales in both scratch and lotto sales. Scratch sales were up 4.9 percent and lotto sales were 16.1 percent higher due to the \$1.5 billion Powerball jackpot in fiscal year 2016.

Summary of Contributions to State

The Lottery contributed a record \$144.7 million to the State in fiscal year 2016. This was a 6.7 percent increase from the \$135.5 million contributed in 2015. The following table provides detail on the total amounts transferred to the State as well as the source of the transfers provided to the State.

Contributions to the State		
	2016	2015
Net proceeds to the State	\$95,758,036	\$86,376,609
In-lieu-of-sales tax	38,535,433	35,546,418
Compulsive gambling contribution	1,617,462	1,922,954
Unclaimed prizes to the State	8,769,064	11,698,224
<i>Total paid to State</i>	<i>\$144,679,995</i>	<i>\$135,544,205</i>

The Lottery has contributed over \$2.6 billion to the State since inception



Summary Results of Operations

Summary Results of Operations		
	2016	2015
Gross receipts	\$554,332,158	\$511,348,521
Prizes, commissions and ticket costs	421,465,971	384,541,061
Gross profit	132,866,188	126,807,460
Operating expenses	25,394,157	25,695,670
Operating income	107,472,030	101,111,790
Non-operating revenues (expense):		
Interest earned on investments	253,532	168,997
Unused Compulsive Gambling	612,538	307,046
Payments to State (not including sales tax)	(106,757,100)	(100,304,833)
Total non-operating revenue (expense)	(105,891,030)	(99,828,790)
<i>Net Income</i>	\$1,581,000	\$1,283,000

Operating Income:

Gross receipts increased by 8.4 percent in fiscal year 2016. While there was a slight decrease in Operating Expenses, direct cost percentage increased due to the \$3.5 million settlement with Scientific Games Inc. Despite all this, operating income in fiscal year 2016 was up 6.3 percent.

Operating Expenses:

Operating expenses decreased in fiscal year 2016 by \$301 thousand or 1.2 percent from fiscal year 2015. This was mainly due to the year-end Pension Expense adjustment.

Gross Receipts by Game:		
	2016	2015
Scratch ticket sales	\$394,761,644	\$376,195,747
Lotto ticket sales:		
Daily 3 [®]	16,690,792	14,633,243
Gopher 5 [®]	15,051,190	21,815,472
Powerball [®]	95,690,466	64,438,029
Powerball [®] Power Play [®]	2,800,853	2,195,749
Mega Millions [®]	17,186,930	19,700,950
Mega Millions [®] Megaplier [®]	1,296,041	1,333,564
Hot Lotto [®]	8,642,473	12,813,117
Hot Lotto [®] Sizzler	928,570	1,342,266
Northstar Cash [®]	10,096,816	9,510,151
Minnesota Millionaire Raffle [®]	6,998,850	6,999,520
All or Nothing [™]	3,238,329	3,976,389
Monopoly Millionaires' Club [™]	0	397,375
Lucky for Life [™]	7,989,328	5,006,304
Progressive Print-N-Play [®]	11,480,526	6,510,093
Total lotto ticket sales	198,091,164	170,672,222
Operating revenue	592,852,808	546,867,969
Other income	14,783	26,970
Total operating revenue	592,867,591	546,894,939
Less in-lieu-of-sales tax	38,535,433	35,546,418
<i>Gross Receipts</i>	\$554,332,158	\$511,348,521

Scratch Games:

Scratch game sales accounted for 66.6 percent and 68.8 percent of total operating revenue for fiscal years 2016 and 2015, respectively. The product mix changed due to the record Powerball jackpot of \$1.5 billion in fiscal year 2016. Scratch sales increased by 4.9 percent in fiscal year 2016 over fiscal year 2015. Total scratch sales were \$394.8 million in fiscal year 2016 and \$376.2 million in fiscal year 2015.

Lotto Games:

Lotto games sales for fiscal year 2016 increased by 16.1 percent or \$27.4 million. This was mainly due to the Powerball jackpot which rolled nineteen times to reach the record \$1.5 billion jackpot. Powerball/Powerplay sales increase of \$31.9 million was offset by a \$13.9 million decrease in Gopher 5, Hot Lotto/Sizzler and Mega Millions/Megaplier sales combined. Powerball has seen higher jackpots since the matrix was changed in fiscal year 2016.

Summary

Condensed Statements of Net Position		
	2016	2015
Assets:		
Cash and cash equivalents	\$29,806,441	\$24,906,193
Receivables	5,018,607	6,700,618
Inventory and prepaid expenses	1,755,997	1,887,556
Capital assets	1,285,402	1,207,356
<i>Total Assets</i>	<i>\$37,866,447</i>	<i>\$34,701,723</i>
Deferred Outflows	\$1,678,000	\$582,000
Liabilities:		
Due to State and State Agencies	\$15,057,296	\$17,233,821
Accounts payable & current accrued expenses	12,119,286	10,022,840
Prize liability	9,477,024	6,328,485
Long-term accrued expenses	6,266,841	6,366,577
<i>Total Liabilities</i>	<i>\$42,920,447</i>	<i>\$39,951,723</i>
Deferred Inflows	6,375,000	6,664,000
Net Position:		
Unrestricted net position	(11,036,402)	(12,539,356)
Net investment in capital assets	1,285,402	1,207,356
<i>Net Position</i>	<i>(9,751,000)</i>	<i>(11,332,000)</i>

Net Position

Minnesota State Lottery's net position at the end of fiscal year 2016 was \$(9.8) million compared to \$(11.3) million in fiscal year 2015. This relates solely to a new GASB requirement Statement No. 68, *Accounting and Financial Reporting for Pension* which took effect in fiscal year 2015. Net Pension Liability was \$(5.1) million combined with a Deferred Inflow of \$(6.4) million and Deferred Outflow of \$1.7 million in fiscal year 2016.

Cash and Cash Equivalents and Receivables:

Cash and cash equivalents and receivables increased by \$3.2 million from fiscal year 2015 to 2016. This is a direct result of higher sales compared to the previous fiscal year.

Capital Assets and Other Assets:

Net capital assets increased by \$78 thousand in fiscal year 2016 versus fiscal year 2015.

Purchases of capital assets totaled over \$684 thousand with the significant purchases on vehicles of over \$234 thousand, computer equipment of over \$176 thousand and office equipment of over \$274 thousand. Net of depreciation, total retirements were \$8,280. See note 5 for more detail.

Due to State and State Agencies:

Payment due to State at the end of fiscal year 2016 was \$2.2 million lower than the previous fiscal year. This was due to a \$2.9 million decrease in Unclaimed Prizes offset by an increase in Net Proceeds of \$753 thousand at the end of the fiscal year.

Prize Liability:

Accrued Prize Liability increased by \$3.1 million in fiscal year 2016. This was due to an increase of \$1.3 million in Powerball prize liability from the \$1.5 billion jackpot run. There were also four Lucky for Life winners of \$25,000/year for life or \$390,000 cash that was still unclaimed at the end of fiscal year 2016.

Accounts Payable and Current Accrued Expenses:

Accounts payable and current accrued expenses increased by \$2.1 million in fiscal year 2016. This was mainly due to an increase in payable due to IGT. The Lottery transitioned to a new online gaming system contract with IGT which put processing of invoices on hold from February to June of fiscal year 2016.

**MINNESOTA STATE LOTTERY
STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015**

Assets:	2016	2015
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 29,806,441	\$ 24,906,193
Accounts Receivable	4,996,914	6,687,645
Interest Receivable	21,693	12,973
Scratch Ticket Inventory	1,283,447	1,217,591
Prepaid Expenses	<u>472,550</u>	<u>669,965</u>
Total Current Assets	36,581,045	33,494,367
Capital Assets, Net (Note 5)	<u>1,285,402</u>	<u>1,207,356</u>
Total Assets	<u>37,866,447</u>	<u>34,701,723</u>
Deferred Outflows (Note 13)	<u>1,678,000</u>	<u>582,000</u>
Liabilities:		
Current Liabilities:		
Net Proceeds Due to State (Note 8)	\$ 6,288,232	\$ 5,535,597
Unclaimed Prizes Due to State (Note 6)	8,769,064	11,698,224
Accounts Payable	6,796,896	4,994,327
In-Lieu-of-Sales Tax Payable	3,003,809	2,876,858
Prize Liability	9,477,024	6,328,485
Accrued Salaries and Benefits Payable, current (Note 7)	1,518,721	1,393,507
Unearned Revenue	<u>799,860</u>	<u>758,148</u>
Total Current Liabilities	<u>36,653,606</u>	<u>33,585,146</u>
Noncurrent Liabilities:		
Accrued Benefits Payable, net of current portion (Note 7)	820,084	786,379
Deferred rent (Note 9)	392,757	330,198
Net Pension Liability (Note 13)	<u>5,054,000</u>	<u>5,250,000</u>
Total Non-Current Liabilities	<u>6,266,841</u>	<u>6,366,577</u>
Total Liabilities	<u>42,920,447</u>	<u>39,951,723</u>
Deferred Inflows (Note 13)	<u>6,375,000</u>	<u>6,664,000</u>
Net Position:		
Net Investment in Capital Assets (Note 8)	1,285,402	1,207,356
Unrestricted	<u>(11,036,402)</u>	<u>(12,539,356)</u>
Total Net Position	<u>\$ (9,751,000)</u>	<u>\$ (11,332,000)</u>

See Accompanying Notes to Financial Statements.

MINNESOTA STATE LOTTERY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEARS ENDED JUNE 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Scratch Ticket Sales	\$ 394,761,644	\$ 376,195,747
Online Ticket Sales	198,091,164	170,672,222
Other Income	<u>14,783</u>	<u>26,970</u>
Total Operating Revenues	592,867,591	546,894,939
Less: In-Lieu-of-Sales Tax	<u>38,535,433</u>	<u>35,546,418</u>
Gross Receipts	<u>554,332,158</u>	<u>511,348,521</u>
Direct Costs:		
Scratch Ticket Prizes	264,542,148	249,885,363
Online Ticket Prizes	101,358,067	85,313,450
Online Vendor Expense	13,951,066	10,404,691
Ticket Costs	5,977,756	6,064,450
Retailer Commissions and Incentives (Note 11)	<u>35,636,934</u>	<u>32,873,107</u>
Total Direct Costs	<u>421,465,971</u>	<u>384,541,061</u>
Gross Profit	<u>132,866,187</u>	<u>126,807,460</u>
Operating Expenses: (Note 12)		
Advertising (Note 12)	5,969,027	6,970,958
Salaries and Benefits (Note 13)	10,968,961	11,259,768
Promotion	2,278,754	1,304,480
Purchased Services	1,657,079	1,696,587
Communication	590,146	556,632
Occupancy Costs (Note 9)	1,567,685	1,469,382
Supplies and Materials	962,875	878,946
Computer and Omnipoint Maintenance	466,069	437,347
Depreciation	598,425	659,856
Other Expense	<u>335,136</u>	<u>461,714</u>
Total Operating Expenses	<u>25,394,157</u>	<u>25,695,670</u>
Operating Income	<u>107,472,030</u>	<u>101,111,790</u>
Nonoperating Revenue (Expense)		
Interest Earned on Investments	253,532	168,997
Compulsive Gambling Contribution from Prize Fund (Note 10)	(1,617,462)	(1,922,954)
Unclaimed Prizes to State (Note 6)	(8,769,064)	(11,698,224)
Net Proceeds to State (Note 8)	<u>(95,758,036)</u>	<u>(86,376,609)</u>
Total Nonoperating Revenue (Expense)	<u>(105,891,030)</u>	<u>(99,828,790)</u>
Change in Net Position	1,581,000	1,283,000
Net Position at Beginning of Year (Note 8)	<u>(11,332,000)</u>	<u>(12,615,000)</u>
Net Position at End of Year (Note 8)	<u>\$ (9,751,000)</u>	<u>\$ (11,332,000)</u>

See Accompanying Notes to Financial Statements

**MINNESOTA STATE LOTTERY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 and 2015**

	2016	2015
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 594,585,251	\$ 545,973,185
Cash Received from Other Income	14,783	26,970
Payments to State (In-Lieu-of-Sales Tax)	(38,408,482)	(35,443,944)
Payments to Employees	(12,391,042)	(12,402,373)
Payments to Suppliers	(31,810,134)	(28,251,798)
Payments to Retailers	(35,636,934)	(32,873,107)
Payments to Prize Winners	(362,751,676)	(336,925,609)
Net Cash Provided by Operating Activities	<u>113,601,766</u>	<u>100,103,324</u>
Cash Flows from Non-Capital Financing Activities:		
Net Proceeds Paid to State	(95,005,401)	(85,417,373)
Compulsive Gambling Contribution Transfer	(1,617,462)	(1,922,954)
Unclaimed Prizes Transfer	(11,698,224)	(9,589,418)
Net Cash Used by Non-Capital Financing Activities	<u>(108,321,087)</u>	<u>(96,929,745)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(684,752)	(517,421)
Proceeds on sale of Capital Assets	59,509	83,158
Net Cash Used by Capital Financing Activities	<u>(625,243)</u>	<u>(434,263)</u>
Cash Flows from Investing Activities:		
Investment Income	<u>244,812</u>	<u>166,353</u>
Net Cash Provided by Investing Activities	<u>244,812</u>	<u>166,353</u>
Net Increase in Cash and Cash Equivalents	4,900,248	2,905,669
Beginning of Year Cash and Cash Equivalents	<u>24,906,193</u>	<u>22,000,524</u>
End of Year Cash and Cash Equivalents	<u>\$ 29,806,441</u>	<u>\$ 24,906,193</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 107,472,030	\$ 101,111,790
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:		
Depreciation	598,425	659,856
Gain on the disposal of capital assets	(51,228)	(78,729)
Change in pension activity	(1,581,000)	(1,283,000)
Net Change in Assets and Liabilities:		
Account Receivable	1,690,731	(988,279)
Inventory	(65,856)	(272,900)
Prepaid Expenses	197,415	(167,146)
Accounts payable	1,802,569	2,412,828
Accrued salaries and benefits payable	158,919	140,395
Deferred rent	62,559	99,336
Other current liabilities	168,663	195,969
Prize Liability	3,148,539	(1,726,796)
Net Cash Provided by Operating Activities	<u>\$ 113,601,766</u>	<u>\$ 100,103,324</u>

See Accompanying Notes to Financial Statements.

MINNESOTA STATE LOTTERY
NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

1. ORGANIZATION OF THE MINNESOTA STATE LOTTERY

In 1988, Minnesotans voted to amend their Constitution to authorize a state-run lottery. In 1989, the Legislature approved and the Governor signed Minnesota Statutes Chapter 349A into law, officially creating the Minnesota State Lottery, the 33rd lottery in the country.

The Minnesota State Lottery (the Lottery), an Enterprise Fund of the State of Minnesota, is under the supervision and control of the Director of the Lottery, who is appointed by the Governor with the advice and consent of the Senate. The Lottery net proceeds and proceeds from the in-lieu-of-sales tax on tickets sales are dedicated to the General Fund, the Environment and Natural Resources Trust Fund, the Game and Fish Fund, and the Natural Resources Fund. The funds are used to enhance the state's natural resources as well as public education, local government assistance, and public safety.

The financial statements present only the Minnesota State Lottery, an Enterprise Fund of the State of Minnesota and do not purport to, and do not, present the financial statements of the State of Minnesota.

Lottery revenue is generated by sales of scratch games and lotto games that include: Daily 3[®], Northstar Cash[®], Progressive Print-N-Play[®], Gopher 5[®], Powerball[®], Powerball[®] Power Play[®], Mega Millions[®], Mega Millions[®] Megaplier[®], Hot Lotto[®], Hot Lotto[®] Sizzler, All or Nothing[™], Monopoly[®] Millionaires' Club[™], Lucky for Life[™] and the Minnesota Millionaire Raffle[®] game.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lottery is an agency of the State of Minnesota using proprietary type enterprise accounting. The financial statements are prepared in accordance with generally accepted accounting principles as applicable to governmental units. Following are the significant accounting policies:

(a) Basis of Accounting

The financial statements of the Lottery have been prepared on the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recognized as incurred.

(b) Budgetary Data:

The Lottery is not legally required to adopt a budget and therefore budgetary comparison schedules are not included as supplementary information.

(c) Measurement Focus

A proprietary fund is accounted for using the “economic resources” measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of the Lottery are included in the statements of net position. The proprietary fund type operating statement presents increases (revenues) and decreases (expenses) in total net position.

(d) Operating Revenues and Expenses

Operating revenues and expenses for a proprietary fund such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues are derived from providing various types of games. Operating expenses include commissions, prize costs, other direct costs of providing lottery games, and administrative expenses.

Packs of scratch tickets are consigned to retail sales outlets and revenue is recognized upon settlement of ticket packs by retailers and are recorded at the sale price to the consumer. Sales of lotto tickets are recognized as operating revenue on the date of the draw for which the tickets were purchased. Revenues from future lotto ticket draw sales are not recognized until the date of the draw for which the tickets were purchased.

(e) Nonoperating Revenue and Expense

Nonoperating revenues are derived primarily from interest earned on cash balances held in the State Treasury and reserves held at the Multi State Lottery Association. Nonoperating expenses consist of appropriations required by law or statute, including the net proceeds to the State.

(f) Cash and Cash Equivalents

Cash and cash equivalents include an amount in demand deposits as well as funds held in the State Treasury and invested by the State Board of Investment.

(g) Prizes and Reserves

Scratch ticket prize expense is recognized in accordance with the predetermined prize structure for each game and is accrued when revenue is recognized. High tier prizes for certain scratch ticket games may also be structured and paid as an annuity.

Prize expense for Daily 3® is recorded based upon the actual winners on the date of the draw. Prize expense for Progressive Print-N-Play® games are based on actual winners and are recorded at the time of sale. The prize expense for Northstar Cash® is recorded at 55 percent of draw sales. The prize expense for Gopher 5® is recorded at 54 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2016 and June 30, 2015 is a \$944,539 and \$1,000,000 prize reserve respectively which reflects funds due to the State Treasury that have been set aside in the Lottery prize fund by the Director in accordance with Minnesota Statutes, Section 349A.10, subdivision 2(b) to assure proper funding for future lottery prizes.

The prize expense for Lucky for Life™ is 59.4335 percent of draw sales. Prizes won ranging from \$4 to \$5,000 are recorded on the date of the draw. The amount in excess of that, up to 59.4335 percent of draw sales, is set aside to pay for the Lottery's share of the top 2 prizes (\$7,000/week for life and \$25,000/year for life), when won.

Prize expenses for Powerball®, Powerball® Power Play®, Hot Lotto®, Hot Lotto® Sizzler, Mega Millions®, Mega Millions® Megaplier® and Monopoly® Millionaires' Club™ are recorded at 50 percent of draw sales. All or Nothing™ is recorded at 60.5102% of draw sales. All Multi-State Lottery Association (MUSL) games are recorded in accordance with the MUSL prize structure. The Powerball®, Powerball® Power Play®, Hot Lotto®, Hot Lotto® Sizzler, Mega Millions®, Mega Millions® Mega Plier®, and All or Nothing™ prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball®, Powerball® Power Play®, Hot Lotto®, Hot Lotto® Sizzler, Mega Millions®, and Mega Millions® Mega Plier® to support payment of prizes in light of the remote possibility of claims greatly exceeding the expected amounts. In the event that the Lottery ceases to participate in one of these games, the Lottery may make claim to assets, if any, in the related prize pool reserve. The Lottery's share of these prize reserves as of June 30, 2016 and June 30, 2015 was as follows:

	2016	2015
Powerball®/ Power Play®	\$ 3,524,126	\$ 3,762,141
Mega Millions®/Megaplier®	905,514	983,045
Hot Lotto® /Sizzler	1,374,827	1,511,072
All or Nothing™	398,797	397,508
	<u>\$ 6,203,264</u>	<u>\$ 6,653,766</u>

These reserves held by MUSL are not included in these financial statements.

The Lottery participates in joint marketing campaigns for various events in order to maximize its marketing dollar and the exposure to the Lottery. In doing so, other entities may donate various prizes which are given out or awarded by the Lottery to its players. The Lottery recognizes other income when the donated prize is received and records prize expense when the prize is awarded to the player. The Lottery received \$23,600 in donated prizes in fiscal year 2015 which were subsequently awarded to players. There no donated prizes in fiscal year 2016.

(h) Scratch Ticket Inventory

Scratch ticket inventories are carried at cost using the specific identification method. Tickets are charged to direct costs over the estimated life of each scratch game.

(i) Capital Assets

Assets costing \$5,000 or more are capitalized and are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line basis using estimated useful lives from three to seven years. Computer equipment, printers, and software costs are depreciated over three years. Vehicles, other than the warehouse truck, are depreciated over four years. Office equipment, lotto drawing equipment and signs are depreciated over five years. Office furniture and the warehouse truck and equipment are depreciated over seven years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life or length of the lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

(j) In-Lieu-of-Sales Tax

From every dollar in Lottery sales, the Lottery sets aside six and one-half cents as in-lieu-of-sales tax and remits that amount monthly to the Commissioner of Revenue as required by Minnesota Statutes, Section 297A.65. Minnesota Statutes, Section 297A.94(e), provides that 27.57% of the in-lieu-of-sales-tax is credited to the General Fund and the remaining 72.43% is credited equally between the Game and Fish Fund and the Natural Resources Fund to be used for natural resources projects as specified by law.

(k) Income Taxes

The Lottery, as an agency of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, the Lottery makes no provision for income taxes.

(l) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS's fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair market value.

3. CASH AND CASH EQUIVALENTS

Minnesota Statutes, Section 349A.10, subdivision 7(a), requires the Lottery transfer all funds to a Lottery cash flow account in the State Treasury. Funds necessary to cover cash needs are transferred as needed from State Treasury to the Lottery fund. Funds in this account earn interest, which is credited monthly to the Lottery's account. Cash on deposit in the State Treasury and with financial institutions is insured. Cash on deposit is covered up to \$250,000 per institution by the Federal Depository Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC insurance limit. As a result, the financial institutions are required to pledge securities as collateral to the Lottery in an amount equal to the funds in excess of the FDIC insurance limit. The securities are held in the name of the Lottery. Cash on deposit in the State Treasury is secured by depository insurance or a combination of depository insurance and collateral securities.

The following table summarizes the Lottery's cash and cash equivalents at June 30, 2016 and June 30, 2015:

	2016	2015
Cash (checks issued but not yet presented for payment)	\$ (207,386)	\$ (482,167)
Cash on Deposit	30,013,827	25,388,360
Total Cash and Cash Equivalents	<u>\$ 29,806,441</u>	<u>\$ 24,906,193</u>

Available cash in the State Treasury is invested by the State Board of Investment. In accordance with Minnesota Statutes, Section 11A.24, the State Board of Investment must invest in obligations and stocks of U.S. and Canadian governments, their agencies and their registered corporations, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds. Cash on deposit in the State Treasury cannot be tied to specific investment securities.

4. ACCOUNTS RECEIVABLE – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table summarizes the Lottery's accounts receivable at June 30, 2016 and June 30, 2015:

	2016	2015
Accounts Receivable	\$ 5,190,948	\$ 6,925,650
Allowance for Doubtful Accounts	(194,034)	(238,005)
Accounts Receivable, Net	<u>\$ 4,996,914</u>	<u>\$ 6,687,645</u>

5. CAPITAL ASSETS

Summary of changes in capital assets for the year ended June 30, 2016 and June 30, 2015 are as follows:

	2016				
	1-Jul-15	Additions	Deletions	Transfers	30-Jun-16
Depreciable Capital Assets:					
Office Equipment & Furniture	\$1,942,689	\$274,219	(\$16,556)		\$2,200,352
Software Costs	1,182,382	8,570			1,190,952
Leasehold Improvements	1,637,481	309			1,637,790
Vehicles	1,051,076	234,024	(171,538)		1,113,562
Computer Equipment	1,453,199	167,629			1,620,828
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,607,938				1,607,938
Signs	185,889				185,889
Warehouse Equipment	236,121				236,121
Capital assets not yet placed in service	0				0
	0				0
Total	10,072,303	684,751	(188,094)	0	10,568,960
Less - accumulated depreciation:					
Office Equipment & Furniture	(1,842,815)	(66,383)	15,172		(1,894,026)
Software Costs	(1,094,833)	(69,922)			(1,164,755)
Leasehold Improvements	(1,424,914)	(46,253)			(1,471,167)
Vehicles	(647,399)	(189,143)	164,642		(671,900)
Computer Equipment	(1,228,760)	(157,142)			(1,385,902)
Lotto Drawing Equipment	(775,527)				(775,527)
Express Point Machines	(1,528,025)	(44,160)			(1,572,185)
Signs	(95,919)	(21,347)			(117,266)
Warehouse Equipment	(226,755)	(4,075)			(230,830)
Total accumulated depreciation	(8,864,947)	(598,425)	179,814	0	(9,283,558)
Net Capital Assets	\$1,207,356	\$86,326	(\$8,280)	\$0	\$1,285,402

2015

	1-Jul-14	Additions	Deletions	Transfers	30-Jun-15
Depreciable Capital Assets:					
Office Equipment & Furniture	\$1,915,749	\$21,945		\$4,995	\$1,942,689
Software Costs	1,157,593	24,789			1,182,382
Leasehold Improvements	1,537,659	104,817		(4,995)	1,637,481
Vehicles	1,176,257	200,319	(325,500)		1,051,076
Computer Equipment	1,391,176	62,023			1,453,199
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,607,938				1,607,938
Signs	82,362	103,527			185,889
Warehouse Equipment	236,121				236,121
Capital assets not yet placed in service	0				0
	0				0
Total	9,880,383	517,420	(325,500)	0	10,072,303
Less - accumulated depreciation:					
Office Equipment & Furniture	(1,792,569)	(50,194)		(52)	(1,842,815)
Software Costs	(1,001,520)	(93,313)			(1,094,833)
Leasehold Improvements	(1,401,456)	(23,510)		52	(1,424,914)
Vehicles	(789,405)	(179,067)	321,073		(647,399)
Computer Equipment	(1,054,527)	(174,233)			(1,228,760)
Lotto Drawing Equipment	(775,527)				(775,527)
Express Point Machines	(1,409,112)	(118,913)			(1,528,025)
Signs	(79,368)	(16,551)			(95,919)
Warehouse Equipment	(222,680)	(4,075)			(226,755)
Total accumulated depreciation	(8,526,164)	(659,856)	321,073	0	(8,864,947)
Net Capital Assets	\$1,354,219	(\$142,436)	(\$4,427)	\$0	\$1,207,356

6. UNCLAIMED PRIZES

Effective July 1, 2003 pursuant to Minnesota Statutes 349A.08, subdivision 5, all unclaimed prizes will be transferred to the General Fund at the end of the fiscal year. The unclaimed prizes due to the State are \$8,769,064 on June 30, 2016 and \$11,698,224 on June 30, 2015.

7. ACCRUED SALARIES AND BENEFITS

A liability is recognized for accrued salaries, post-employment benefit obligations, unpaid vacation, compensatory hours, vested severance and anticipated severance pay when earned. Non-vested severance pay is estimated based upon historical trends and current demographics. A schedule of the accrued salaries and benefits are as follows:

	2016	2015
Accrued Salary and Benefits:		
Salaries Payable	\$ 624,158	\$ 490,168
Compensated Absences	894,563	903,339
	<u>\$ 1,518,721</u>	<u>\$ 1,393,507</u>
Compensated Absences	\$ 643,084	\$ 639,379
Post Employee Obligations	177,000	147,000
	<u>\$ 820,084</u>	<u>\$ 786,379</u>

Compensated Absences Payable:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
2016	\$ 1,542,718	\$ 1,142,997	\$ (1,148,041)	\$ 1,537,647
2015	\$ 1,506,549	\$ 1,215,963	\$ (1,179,794)	\$ 1,542,718

8. NET POSITION

Within 30 days after the end of each month, the Lottery is required by Minnesota Statutes, Section 349A.10, and subdivision 5 to deposit the net proceeds in the State Treasury. Net Proceeds Due to State on the accompanying balance sheet for the month ended June 30, 2016 and June 30, 2015 was \$6,288,232 and \$5,535,597 respectively. Net investment in capital assets consist of capital assets, net of accumulated depreciation.

The ending net position of the Minnesota State Lottery of \$(9.8) million at June 30, 2016 and \$(11.3) million at June 30, 2015 relates solely to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

9. COMMITMENTS AND CONTINGENCIES

(a) Risk Management

The Lottery is exposed to various risks of loss related to torts, checking, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Lottery participates in the State's Risk Management Fund for property, liability, crime and automobile insurance coverage. The Lottery pays annual premiums for this coverage. The State's Risk Management Fund covers all claims above the deductible. The Lottery has not experienced any settlements in excess of coverage in the past three years.

The areas of insurance coverage, limits and deductibles as of June 30, 2016 are as follows:

<u>Coverage</u>	<u>Limits</u>	<u>Deductible</u>
Property	\$7,615,478	\$ 1,000
Auto		
Bodily Injury & Property Damage	\$500,000/\$1,500,000	\$ 500
Primary Crime		
Employee Dishonesty, Money & Securities	\$ 25,000	\$ 1,000
General Liability	\$500,000/\$1,500,000	None
Excess Crime		
Employee Theft	\$ 2,000,000	\$ 50,000
Forgery or Alteration	\$ 1,000,000	\$ 25,000
Theft of Money & Securities	\$ 75,000	\$ 25,000
Robbery, Safe Burglary-Other Prop.	\$ 75,000	\$ 25,000
Outside Premises	\$ 75,000	\$ 25,000
Computer Fraud	\$ 2,000,000	\$ 50,000
Funds Transfer	\$ 2,000,000	\$ 50,000
Money Orders & Counterfeit Paper	\$ 1,000,000	\$ 25,000
Currency		

The Lottery participates in the State's workers' compensation program. The Workers' Compensation Alternative Cost Allocation Account (WCACAA) funds approximately 15% of the total workers' compensation costs annually. Funds are collected up-front through a premium based on each agency's unique exposure and experience. The Lottery paid a premium of \$28,853 in fiscal year 2016 and \$26,810 in fiscal year 2015.

As of June 30, 2016, the Lottery has purchased twenty-six lifetime annuities from various insurance companies. If these insurance companies were to default on those obligations these policies would be covered under a "Guaranty Fund Law" which is administered by the State of Minnesota. The amount guaranteed per annuity is \$300,000. The Lottery may be ultimately responsible for the lifetime annuities; however, management feels that the possibility of these insurance companies defaulting on its obligations in a material sum in excess of the \$300,000 guaranteed by the State is remote.

(b) Operating Leases

The Lottery is committed under various operating leases for building and office space. For the year ended June 30, 2016 and 2015, the lease expense was \$1,259,588 and \$1,174,050. This is net of sublease rental income of \$262,495 in 2016 and \$347,997 in 2015. Sublease rental income is included within occupancy costs in the financial statements. Future minimum lease payments for existing lease agreements are:

<u>Year Ending June 30</u>	<u>Lease Amount</u>
2017	\$ 1,497,202
2018	1,412,655
2019	1,234,600
2020	1,269,057
2021	1,294,412
2022 to 2023	<u>2,484,280</u>
Total	<u><u>\$ 9,192,206</u></u>

The total amount of lease payments is being charged to Occupancy Costs on a straight-line basis over the terms of the leases. The difference between the lease expense and amount paid is recorded as accrued rent.

10. COMPULSIVE GAMBLING TREATMENT CONTRIBUTION PROVIDED FROM PRIZE FUND

Minnesota Laws 1998, Chapter 407, Article 8, Section 11 directed the Lottery to pay \$340,000 annually from the prize fund to a special Indian Gaming account in the State Treasury. Funds in this account are transferred to the Department of Human Services for compulsive gambling treatment programs.

Minnesota Laws 2013, Chapter 108, Article 14, section 2, subdivision 1 appropriated \$1,890,000 for fiscal years 2016 and 2015 from the Lottery Prize Fund of the Department of Human Services for statewide compulsive gambling treatment programs. The Department of Human Services utilized \$1,617,462 and \$1,922,954 for 2016 and 2015 for compulsive gambling programs of the allowable appropriated amount of \$2,230,000 for each year. The programs' services are designed to increase public awareness of problem gamblers and their families, and research relating to problem gambling.

11. RETAILER COMMISSIONS AND INCENTIVES

Retailer commission is set by Minnesota Rule 7856.4030, subpart 1 as 5.5% of the price of each lottery ticket sold by a retailer and 1% of the amount of each winning lottery ticket cashed by a retailer. Lottery retailers were paid \$35,636,934 in 2016 and \$32,873,107 in 2015.

12. STATUTORY LIMITATION ON OPERATING AND ADVERTISING EXPENSES

Gross revenue is defined in law as ticket sales and all other income less in-lieu-of-sales tax. Direct costs are expenses that are a direct function of lottery sales, which include all prize payouts, retailer commissions and incentives, amounts paid to produce and deliver

scratch lottery tickets, and amounts paid to an outside vendor to operate and maintain an on-line gaming system. Operating costs include all other expenses of the Lottery.

Minnesota Statutes, Section 349A.10, subdivision 3 limits the Lottery's advertising costs to 2.75 percent and operating costs to 9 percent of gross revenue. Minnesota Laws 2013, Chapter 142, Article 1, section 17 provides that notwithstanding Minnesota Statutes, section 349A.10, subdivision 3, the operating budget must not exceed \$30,500,000 in fiscal year 2016 and 2015.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.08 percent for fiscal year 2016 and 1.36 percent for fiscal year 2015. Operating costs as a percentage of gross revenue were 4.58 percent and 5.02 percent for the year ended June 30, 2016 and 2015 respectively.

13. RETIREMENT PLANS AND POST RETIREMENT BENEFITS

(a) Plan Description

The State Employees Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS), and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan, and three single-employer defined benefit plans: the Military Affairs Plan, the Transportation Pilots Plan, and the Fire Marshals Plan. Only certain employees of the Department of Military Affairs, the Department of Transportation, and the State Fire Marshal's Division are eligible to be members of those plans, but all state of Minnesota employees who are not members of another plan are covered by the General Plan. The Transportation Pilots Plan has been closed to new entrants since July 1, 2008.

MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at www.msrs.state.mn.us/financial-information; by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

(b) Benefits Provided

MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent

funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

(c) Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.0 percent of their annual covered salary in fiscal year 2014. Effective July 1, 2014, member and employer rates increased to 5.5 percent of total compensation. The Lottery's contributions to MSRS for the year ending June 30, 2016, 2015, and 2014 were as follows:

Classified Plan

	2016	2015	2014
MSRS	\$480,931	\$488,541	\$424,617

Unclassified Plan

	2016	2015	2014
MSRS	\$36,755	\$37,847	\$32,908

These contributions were equal to the contractually required contributions for each year as set by state statute.

(d) Actuarial Assumptions

The Minnesota State Lottery's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent per year
Active Member Payroll Growth	3.50 percent per year
Investment Rate of Return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables projected with mortality improvement scale AA, white collar adjustment. Benefit increases for retirees are assumed to be 2.0 percent every January 1st through 2043 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis of building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

(e) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, was 7.90 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015 and 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A long-term expected rate of return of 7.90 percent for June 30, 2015 and

2014 and a municipal bond rate of 3.80 percent as of June 30, 2015 and 4.63 percent as of June 30, 2014. The projection showed that assets would be available to pay benefits only through 2045, with a resulting single discount rate of 7.90 percent for 2015 and 6.63 percent for 2014, and an increase of 1.27 percent between the beginning and the end of the measurement period.

(f) Net Pension Liability

At June 30, 2016, the Minnesota State Lottery reported a liability of \$5,054,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Minnesota State Lottery's proportion of the net pension liability was based on the Minnesota State Lottery's contributions received by MSRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2015, the Minnesota State Lottery's proportion was 0.4399 percent.

For comparison purposes at June 30, 2015, the Minnesota State Lottery reported a liability of \$5,250,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Minnesota State Lottery's proportion of the net pension liability was based on the Minnesota State Lottery's contributions received by MSRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2014, the Minnesota State Lottery's proportion was 0.4371 percent.

Two changes in benefit provisions affected the measurement of the total pension liability since the prior measurement date. Member and employer contribution rates increased from 5 percent to 5.5 percent of pay effective the first day of the first full pay period beginning after July 1, 2014. Beginning July 1, 2014, the funding ratio threshold that must be attained to pay a 2.5 percent post-retirement benefit increase to benefit recipients was changed from 90 percent for one year to 90 percent for two consecutive years.

Two changes in assumptions affected the measurement of the total pension liability since the prior measurement date. The single discount rate changed from 6.63 percent to 7.90 percent. The post-retirement benefit increase changed from 2 percent indefinitely, to 2 percent through 2043, and 2.5 percent thereafter.

(g) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website (www.msrs.state.mn.us/financial-information).

(h) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016 and June 30, 2015, the Minnesota State Lottery recognized a pension adjustment of \$(1,581,000) and \$(808,000) respectively.

At June 30, 2016, the Minnesota State Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-0-	\$1,381,000
Changes of assumptions	-0-	\$2,888,000
Net difference between projected and actual earnings on investments	\$1,032,000	\$2,055,000
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$154,000	\$51,000
Contributions paid to MSRS subsequent to the measurement date	\$492,000	-0-
Total	\$1,678,000	\$6,375,000

Amounts reported as deferred outflows of resources related to pensions resulting from Minnesota State Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

At June 30, 2015, the Minnesota State Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-0-	\$114,000
Changes of assumptions	-0-	\$3,827,000
Net difference between projected and actual earnings on investments	-0-	\$2,723,000
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$107,000	-0-
Contributions paid to MSRS subsequent to the measurement date	\$475,000	-0-
Total	\$582,000	\$6,664,000

Amounts reported as deferred outflows of resources related to pensions resulting from Minnesota State Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

(i) Postemployment Benefits

The Lottery provides other postemployment benefits (OPEB) as part of its total employee compensation package. GASB statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions” requires the Lottery to report OPEB on the face of its financial statements. The Lottery implemented GASB Statement No. 45 in Fiscal Year 2008. Total adjustments related to the OPEB Liability for fiscal years 2016 and 2015 were \$30,000 and \$34,000, respectively.

Schedules of Required Supplementary Information

**Schedule of the Minnesota State Lottery's Share of Net Pension Liability
State Employees Retirement Fund
Last 10 years***

Schedule of the Minnesota State Lottery's Share of Net Pension Liability
State Employee Retirement Fund

Plan Year	Employer's Portion (Percentage) of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.4399%	\$5,054,000	\$9,353,603	54.03%	88.32%
2014	0.4371%	\$5,250,000	\$9,336,162	56.23%	87.64%

Schedule of the Minnesota State Lottery's Contributions
State Employee Retirement Fund

Plan Year	Contractually Required Contributions	Actual Contributions Made	Contribution Deficiency	Minnesota State Lottery's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	\$517,686	\$517,686	\$0	\$9,353,603	5.535%
2014	\$526,388	\$526,388	\$0	\$9,336,162	5.638%

* This schedule is intended to show information for 10 years prospectively beginning in fiscal year ended June 30, 2015. Additional years will be displayed as they become available.

**For purposes of this schedule, covered payroll is defined pensionable wages.



STATISTICAL SECTION

MINNESOTA STATE LOTTERY STATISTICAL SECTION INTRODUCTION

This section of the Minnesota State Lottery's Comprehensive Annual Financial Report presents detailed information as a supplement to the information presented in the financial statements and is disclosed in the notes. The following is a summary of the information contained in this statistical section.

NET ASSETS

The schedules on pages 47-48 present Schedule of Net Assets and Changes in Net Assets for fiscal year 2007 through the current year. Lottery statutes require that net proceeds are deposited in the State Treasury each month. Net Assets invested in capital assets consist of capital assets, net of accumulated depreciation. Beginning with fiscal year 2015, the Lottery adopted the new GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Note 8 of the Notes to the Financial Statements provides further details.

FINANCIAL DATA AND TRENDS

These schedules contain financial information from inception (1990) to date. This information gives the reader an understanding of how the Lottery's financial performance has changed over the years. Trend and chart schedules can be found on pages 49-54 and include the following information:

- Revenue Distribution by game. Revenue includes sales, interest income, increases or decreases in fair market value of investments, unused compulsive gambling contribution and other income.
- Sales by Game.
- Expenses and Payments Distribution displayed in 2 separate charts.
 - Prizes represent the accrued expenses for scratch and lotto winners based on established prize structures.
 - Retailer Commission & Incentives: Retailer commissions are 5.5 percent of sales, cashing commissions of 1 percent and retailer incentives vary.
 - Operating & Other Expenses which includes administrative expenses and direct costs such as lotto vendor and ticket expenses.
 - State General and Special Funds: Payments to the state include in-lieu-of sales tax, compulsive gambling contribution, unclaimed prizes and net proceeds.
- Full Time Employees.
- Capital Assets.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules can be found on pages 55-56 and contain Player Demographics and Schedule of Principal Employers to help the reader understand the environment in which the Lottery operates.

OPERATING INFORMATION

The schedule on page 57 contains information about the Lottery's structure and financial performance indicators compared to other state lotteries. Additional operating information can be found on pages 52-54; these schedules include information about operational expenses and trends.

MINNESOTA STATE LOTTERY
Schedule of Net Assets and Changes in Net Assets
Fiscal Year Ending June 30 for the Years Shown

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
REVENUES										
Operating Revenues										
Scratch Ticket Sales	\$ 260,841,696	\$ 297,972,532	\$ 324,941,996	\$ 338,114,154	\$ 354,813,430	\$ 355,260,670	\$ 363,835,268	\$ 351,912,194	\$ 376,195,747	\$ 394,761,644
Online Ticket Sales:										
Daily 3 [®]	13,198,769	12,896,317	12,417,213	12,939,238	13,258,715	12,844,327	13,891,885	14,374,236	14,633,243	16,690,792
Gopher 5 [®]	13,451,495	16,860,714	16,485,360	15,451,880	16,457,217	19,611,685	20,027,762	17,066,341	21,815,472	15,051,190
Powerball [®]	86,770,299	91,984,559	83,265,951	82,252,717	59,028,789	70,516,182	104,153,926	77,427,224	64,438,029	95,690,466
Powerball [®] Power Play [®]	4,822,784	5,183,767	5,070,512	4,997,806	3,816,815	3,141,464	2,969,839	2,485,438	2,195,749	2,800,853
Daily Millions [®]										
Hot Lotto [®]	18,241,635	11,718,951	13,265,974	13,805,414	12,250,143	8,604,488	11,888,590	11,499,441	12,813,117	8,642,473
Hot Lotto [®] Sizzler		480,279	1,026,762	1,096,382	1,065,828	823,377	1,076,822	1,156,486	1,342,266	928,570
Cash for Life [™]										
Rolldown [™]										
Northstar Cash [®]	10,974,105	11,381,159	11,671,586	11,899,536	10,872,164	9,941,086	11,040,160	10,040,866	9,510,151	10,096,816
Slots Plus										
Minnesota Millionaire Raffle [®]	4,992,260	4,983,459	4,989,042	4,998,520	5,999,710	5,993,670	5,991,700	5,999,680	6,999,520	6,998,850
Mega Millions [®]				5,900,573	17,995,480	24,678,710	14,019,200	25,408,255	19,700,950	17,186,930
Mega Millions [®] Megaplier [®]				582,425	1,545,180	1,563,907	1,102,376	1,536,563	1,333,564	1,296,041
All or Nothing [™]								3,652,456	3,976,389	3,238,329
Monopoly Millionaires' Club [™]									397,375	0
Lucky for Life [™]									5,006,304	7,989,328
Progressive Print-N-Play [®]	9,318,669	8,061,088	7,810,737	6,930,076	7,332,938	7,053,971	10,400,056	8,956,637	6,510,093	11,480,526
Total Online Ticket Sales	161,770,016	163,550,293	156,303,137	160,854,567	149,622,979	164,772,867	196,562,316	179,603,623	170,672,222	198,091,164
Total Sales	422,611,712	461,522,825	481,245,133	498,968,721	504,436,409	520,033,537	560,397,584	531,515,817	546,867,969	592,852,808
Other Operating Revenues										
Other Income	14,152	57,979	95,297	39,772	88,136	53,453	92,321	42,729	26,970	14,784
Total Operating Revenues	422,625,864	461,580,804	481,340,429	499,008,493	504,524,545	520,086,990	560,489,905	531,558,546	546,894,939	592,867,592
Nonoperating Revenues										
Interest Earned on Investments	1,618,282	1,518,360	674,888	265,763	121,422	155,819	134,842	157,106	168,997	253,532
Net Increase (Decrease) in the Fair Value of Investments	0	0	0	0	0	0	0	0	0	0
Unused Compulsive Gambling Contribution	0	0	65,000	0	0	0	0	0	0	0
Total Nonoperating Revenues	1,618,282	1,518,360	739,888	265,763	121,422	155,819	134,842	157,106	168,997	253,532
Total Revenues	424,244,146	463,099,164	482,080,317	499,274,256	504,645,966	520,242,809	560,624,747	531,715,652	547,063,936	593,121,124

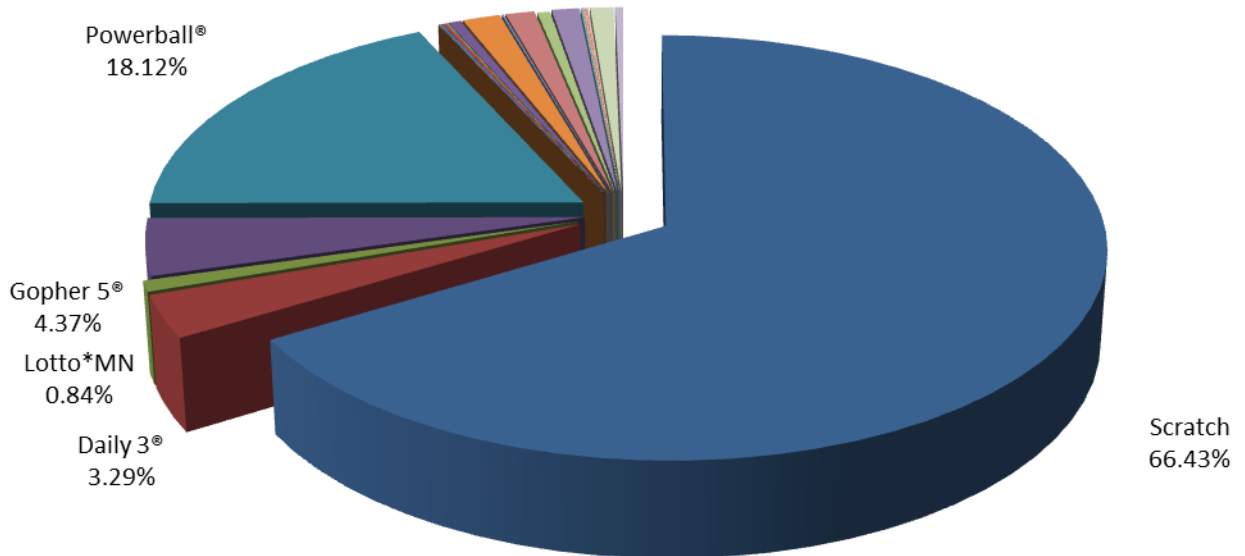
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	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
OPERATING EXPENSES										
Direct Costs										
Scratch Ticket Prizes	\$173,761,521	\$199,227,777	\$217,652,167	\$225,083,096	\$236,881,984	\$240,023,798	\$248,336,306	\$236,355,171	\$249,885,363	\$264,542,148
Online Ticket Prizes	76,357,952	80,407,544	77,388,857	80,232,645	73,977,591	80,584,939	98,737,043	91,637,479	85,313,450	101,358,068
Online Vendor Expenses	9,869,664	10,031,368	9,525,314	8,930,263	9,077,683	9,505,892	10,680,681	9,923,920	10,404,691	13,951,066
Ticket Costs	3,720,019	5,338,261	5,809,317	7,355,164	7,608,118	8,635,277	8,076,972	7,482,509	6,064,450	5,977,756
Retailer Commissions and Incentives	25,249,788	27,663,038	28,846,824	29,869,894	30,347,192	31,468,680	33,483,145	31,837,379	32,873,107	35,636,934
Total Direct Costs	288,958,944	322,667,987	339,222,480	351,471,062	357,892,568	370,218,586	399,314,147	377,236,458	384,541,061	421,465,972
Administrative Expenses	22,933,423	24,165,560	24,610,481	25,554,707	24,865,262	26,371,872	26,228,324	27,449,582	25,695,670	25,394,157
Total Operating Expenses	311,892,367	346,833,547	363,832,961	377,025,769	382,757,830	396,590,458	425,542,471	404,706,040	410,236,731	446,860,129
NONOPERATING EXPENSES										
Payments to State:										
In-Lieu-of Sales Tax	27,469,761	29,998,984	31,280,934	32,432,967	32,788,367	33,802,180	36,425,843	34,548,528	35,546,418	38,535,433
Compulsive Gambling Contribution	1,946,000	2,525,000	2,130,000	2,230,000	2,230,000	2,074,948	1,718,101	1,188,372	1,922,954	1,617,462
Unclaimed Prizes	9,018,487	7,154,188	7,812,399	9,211,142	9,759,269	10,250,589	11,115,435	9,589,418	11,698,224	8,769,064
Net Proceeds	73,917,531	76,587,446	77,024,024	78,374,378	77,110,501	77,524,634	85,822,897	81,683,294	86,376,610	95,758,036
Total Payments to State	112,351,779	116,265,617	118,247,356	122,248,487	121,888,136	123,652,351	135,082,275	127,009,612	135,544,205	144,679,995
Total Nonoperating Expenses	112,351,779	116,265,617	118,247,356	122,248,487	121,888,136	123,652,351	135,082,275	127,009,612	135,544,205	144,679,995
Total Expenses	424,244,146	463,099,164	482,080,317	499,274,256	504,645,966	520,242,809	560,624,746	531,715,652	545,780,936	591,540,124
CHANGES IN NET ASSETS	(\$0)	\$0	\$0	\$0	(\$0)	\$0	\$0	(\$0)	\$1,283,000	\$1,581,000
NET ASSETS										
Invested in Capital Assets	\$1,403,218	\$1,135,109	\$1,811,785	\$2,265,672	\$2,151,282	\$1,535,356	\$1,681,911	\$1,354,219	\$1,207,356	\$1,285,402
Restricted	0	0	0	0	0	0	0	0	0	0
Unrestricted	(1,403,218)	(1,135,109)	(1,811,785)	(2,265,672)	(2,151,282)	(1,535,356)	(1,681,911)	(1,354,219)	(12,539,356)	(11,036,402)
Total Net Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$11,332,000)	(\$9,751,000)

MINNESOTA STATE LOTTERY REVENUE DISTRIBUTION FISCAL YEARS 1990 (Inception) THROUGH 2016

Total Revenues \$11.1 billion

DATO!	0.02%	Hot Lotto	1.59%	Northstar Cash	1.23%
Cash 4 Life	0.14%	Sizzler	0.08%	Power Play	0.52%
Rolldown	0.07%	Mega Millions	1.08%	Monopoly	0.00%
Slots Plus	0.00%	Megaplier	0.08%	Daily Millions	0.13%
Raffle	0.50%	Lucky for Life	0.11%	Print-N-Play	0.99%
All or Nothing	0.09%	Other Income	0.33%		



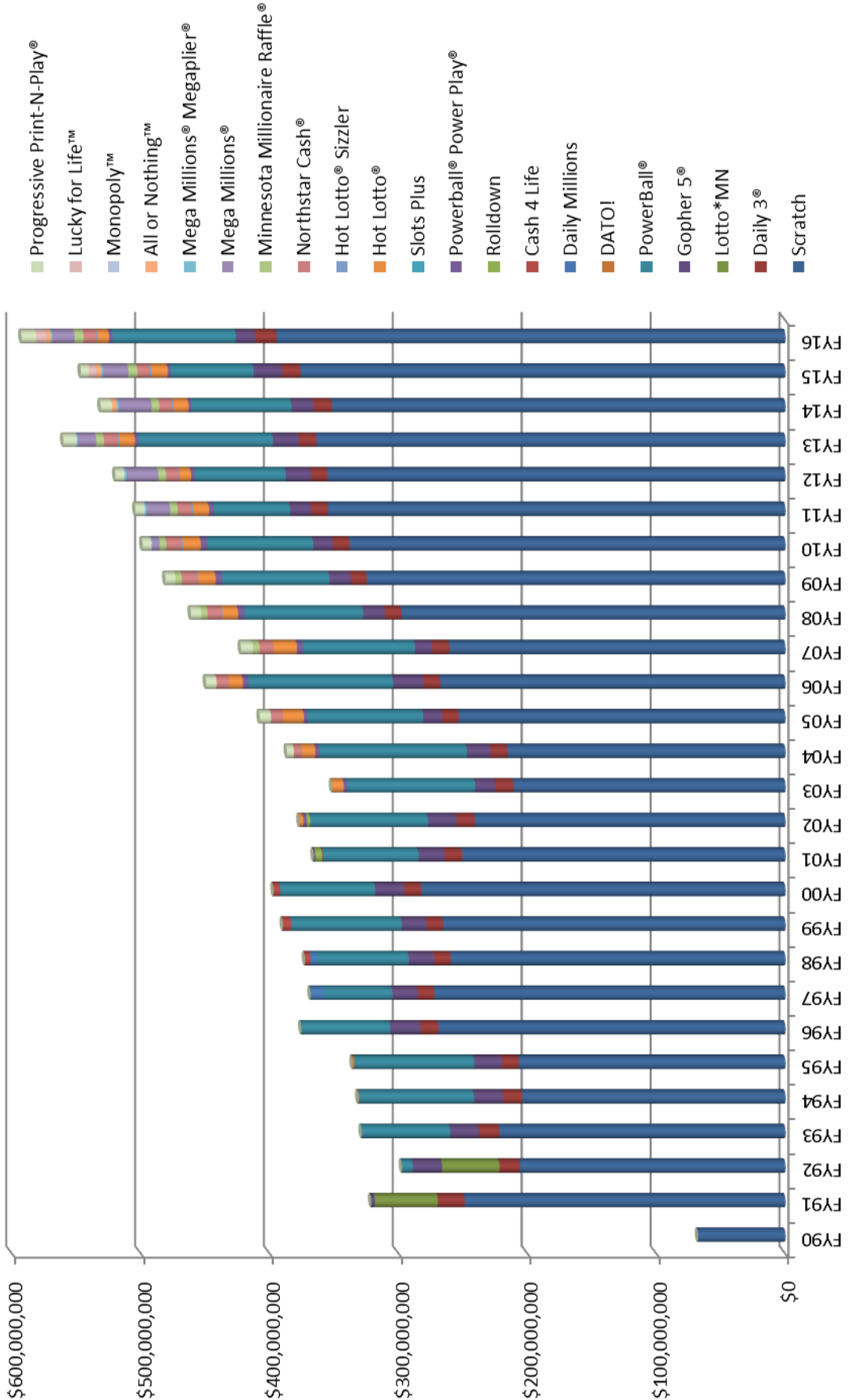
In Minnesota, lottery players prefer scratch games over lotto games two to one.

Scratch games sales are generated more from impulse buys versus lotto games sales, which are jackpot driven.

Scratch games have higher prize percentage versus lotto games. In fiscal year 2016, scratch game prizes were approximately 67.0 percent of scratch sales, lotto game prizes were 51.1 percent of lotto sales.

At the end of fiscal year 2016, there were 38 active scratch games, nine active Progressive Print-N-Play games and eight types of lotto games (Daily 3, Gopher 5, PowerBall/Power Play, Hot Lotto/Sizzler, Northstar Cash, Mega Millions/Megaplier, All or Nothing and Lucky for Life).

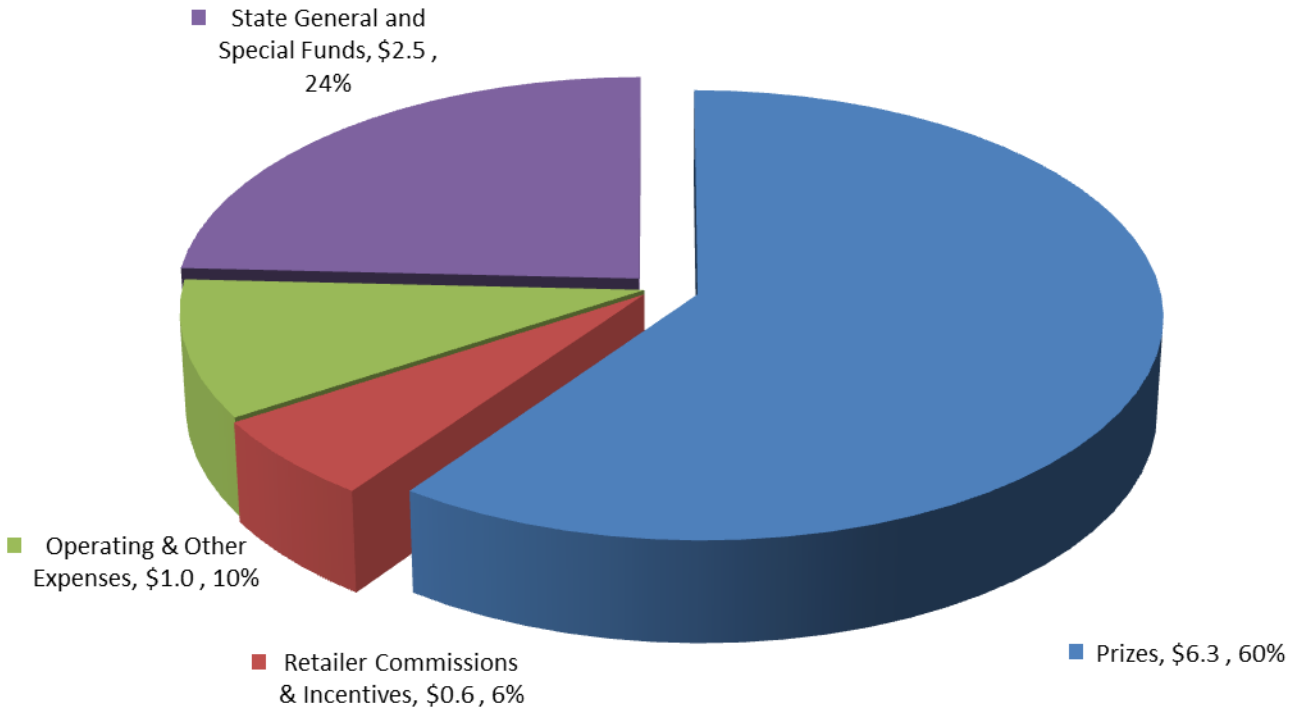
MINNESOTA STATE LOTTERY SALES BY GAME FISCAL YEARS 1990 (Inception) THROUGH 2016



MINNESOTA STATE LOTTERY EXPENSES AND PAYMENTS DISTRIBUTION FISCAL YEARS 1990 (Inception) THROUGH 2016

(in billions)

Total Expenses and Payments \$11.1 billion



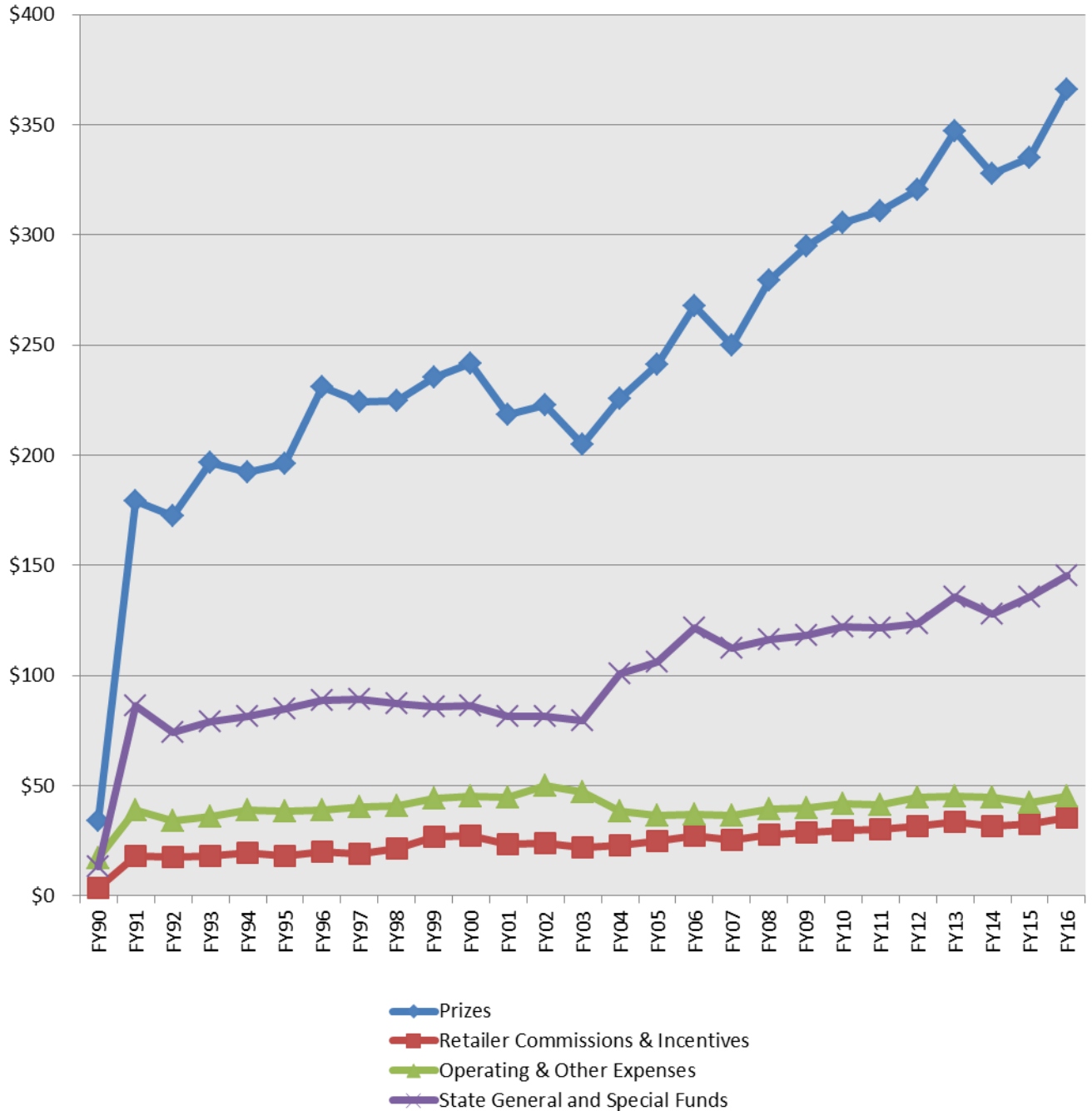
Prizes: Minnesota State Lottery statute states lotto prizes must be at least 45 percent of lotto games sales and scratch prizes must be at least 60 percent of scratch games sales. For fiscal year 2016, lotto prizes and scratch prizes were approximately 51.2 percent and 67.0 percent, respectively.

State General & Special Funds: The Minnesota State Lottery is required by state to transfer Net Proceeds (Net Profits), In-Lieu-of-Sales Tax and Unclaimed Prizes to the State's General and Special Funds. The Minnesota State Lottery is also required to transfer a specified amount to the state for Problem Gambling.

Operating Expense: By law, Minnesota State Lottery's operating expenses are restricted. In fiscal year 2016, operating expenses were restricted to no more than 9 percent of Gross Revenue with a spending limit of \$31,000,000. Operating Expenses in fiscal year 2016 were \$25,394,157 or 4.6 percent of Gross Revenue.

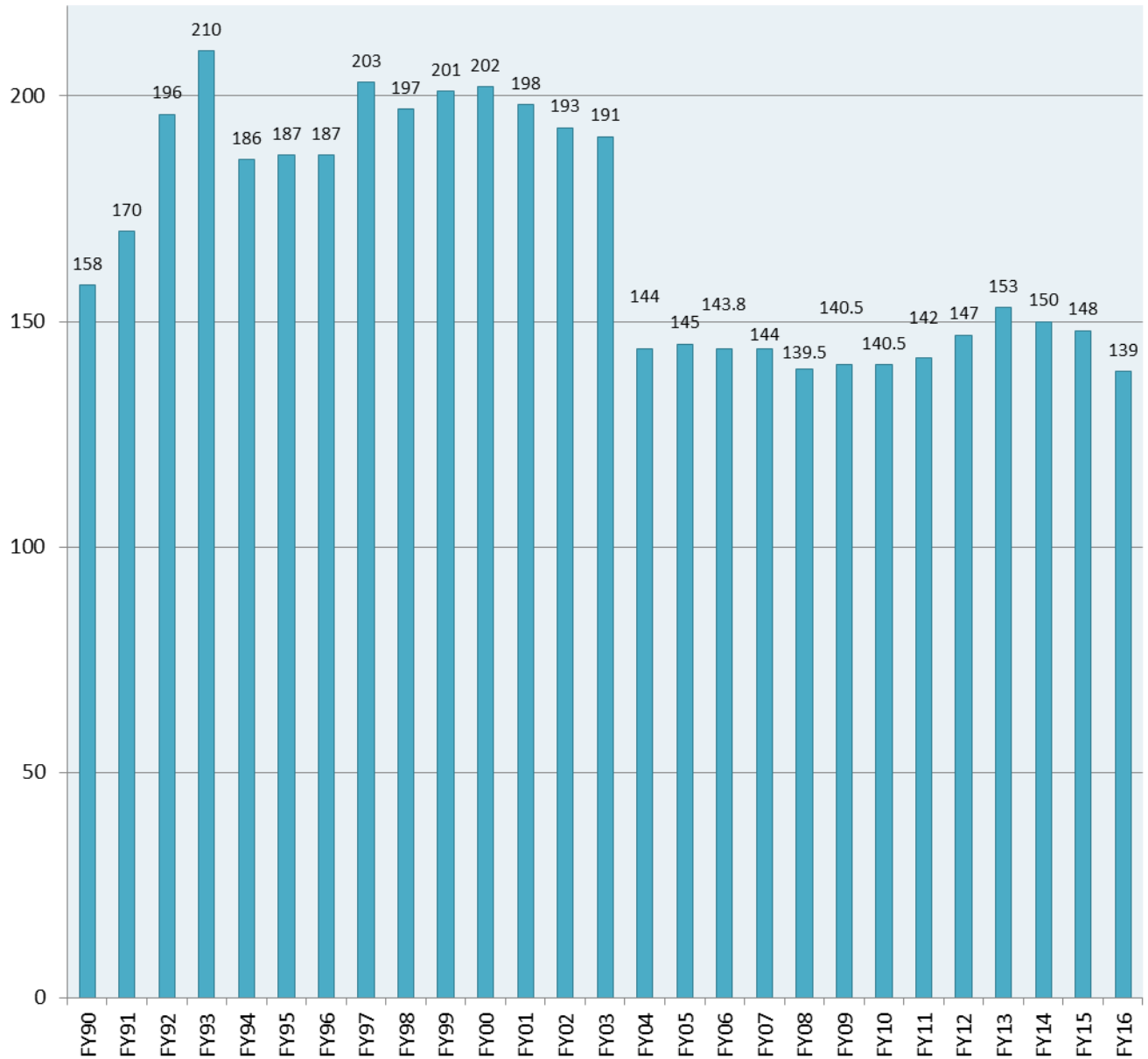
Retailer Commissions & Incentives: Retailers are paid commissions on sales and cashing of winning tickets. The director may also establish lottery retailer incentive programs. In fiscal year 2016, retailers were paid sales commissions of 5.5 percent, cashing commissions of 1 percent and earned incentives of \$371,216.

MINNESOTA STATE LOTTERY EXPENSES AND PAYMENTS DISTRIBUTION FISCAL YEARS 1990 (Inception) THROUGH 2016



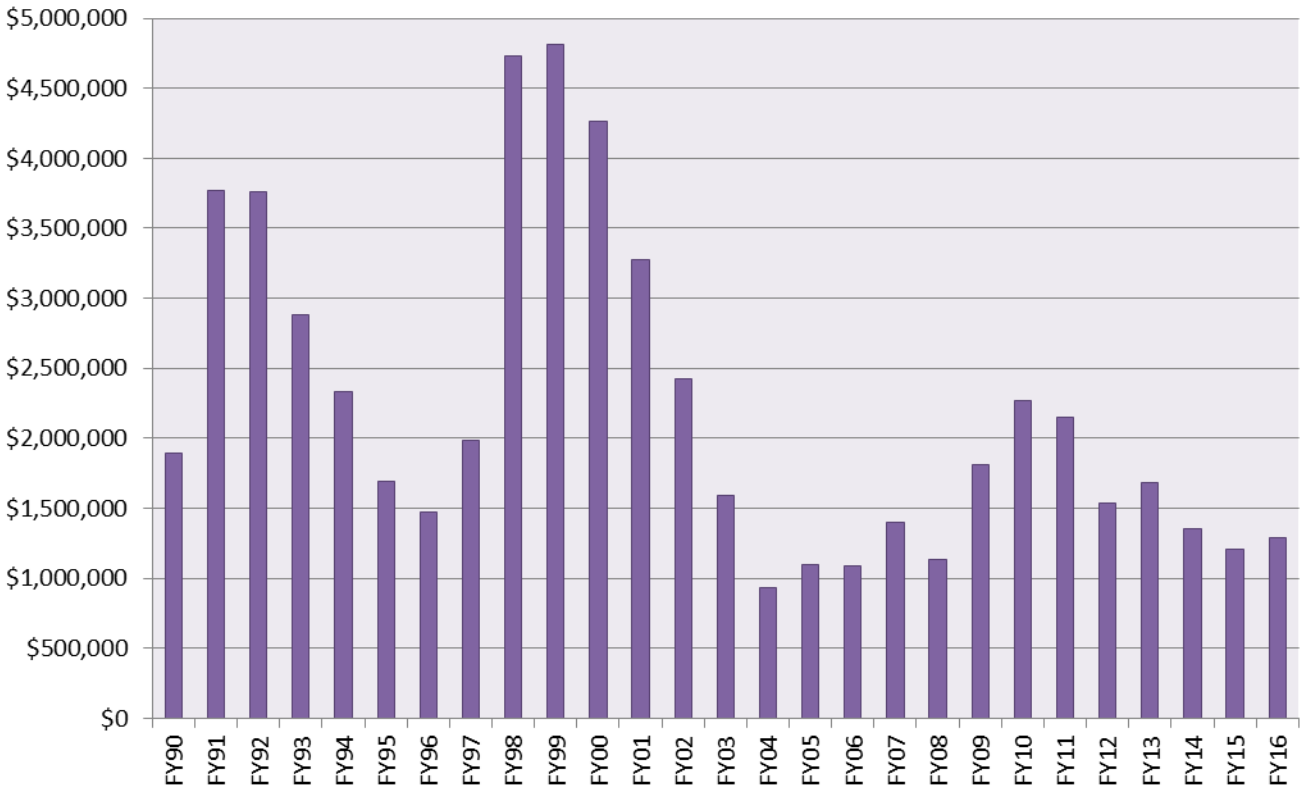
In FY04, the Minnesota State Lottery implemented cost cutting measures that decreased operating expenses resulting in increased payments to State General & Special Funds.

MINNESOTA STATE LOTTERY FULL TIME EMPLOYEES FISCAL YEARS 1990 (Inception) THROUGH 2016



In FY04, the Minnesota State Lottery implemented cost cutting measures that included downsizing of employees.

MINNESOTA STATE LOTTERY CAPITAL ASSETS FISCAL YEARS 1990 (Inception) THROUGH 2016



Fixed Asset is defined as tangible asset owned and used by the Lottery that are of a relatively fixed or permanent in nature, with an expected useful life of more than one year and costing equal to or greater than \$5,000. Prior to fiscal year 2004, cost threshold was equal to or greater than \$1,000.

Major capital increases in fiscal year 1991 included:

- \$1 million in computer equipment. This was mostly for back-up computer equipment which was purchased and installed off-site at the Eagan regional office.
- \$700,000 for office furniture. New furniture purchased to replace old used furniture borrowed from state.

Major capital increases in fiscal year 1998 included:

- \$2 million for Omnipoint Equipment. Purchase and installation of new retailer ticket terminals.
- \$700,000 for vehicles. Decision made to purchase fleet of vehicles vs. leasing.

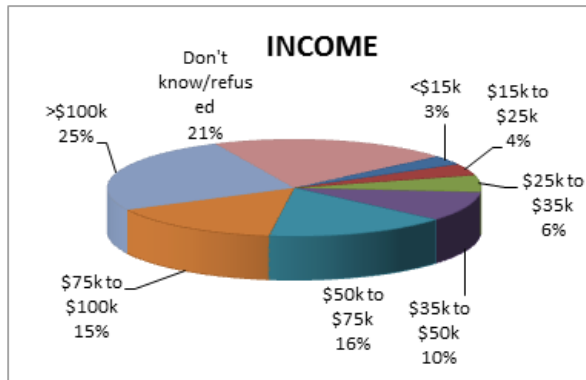
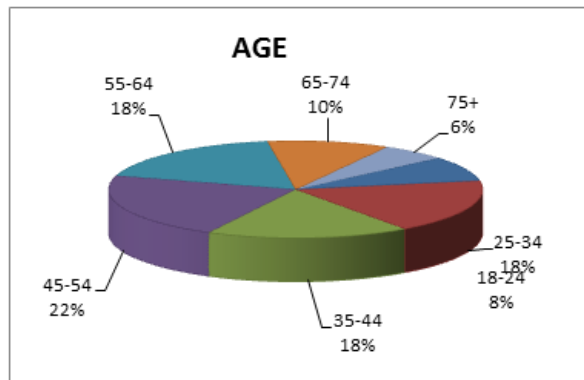
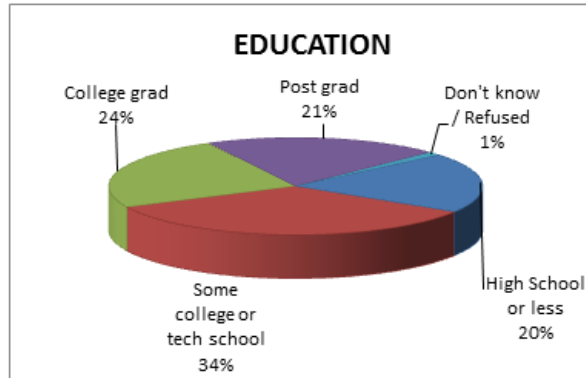
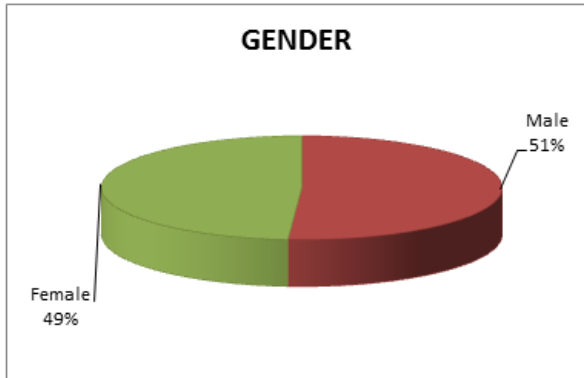
Major capital increases in fiscal year 2009 included:

- \$700,000 for Express Point Machines.

Major capital increases in fiscal year 2010 included:

- \$540,000 for Enterprise Accounting Package.

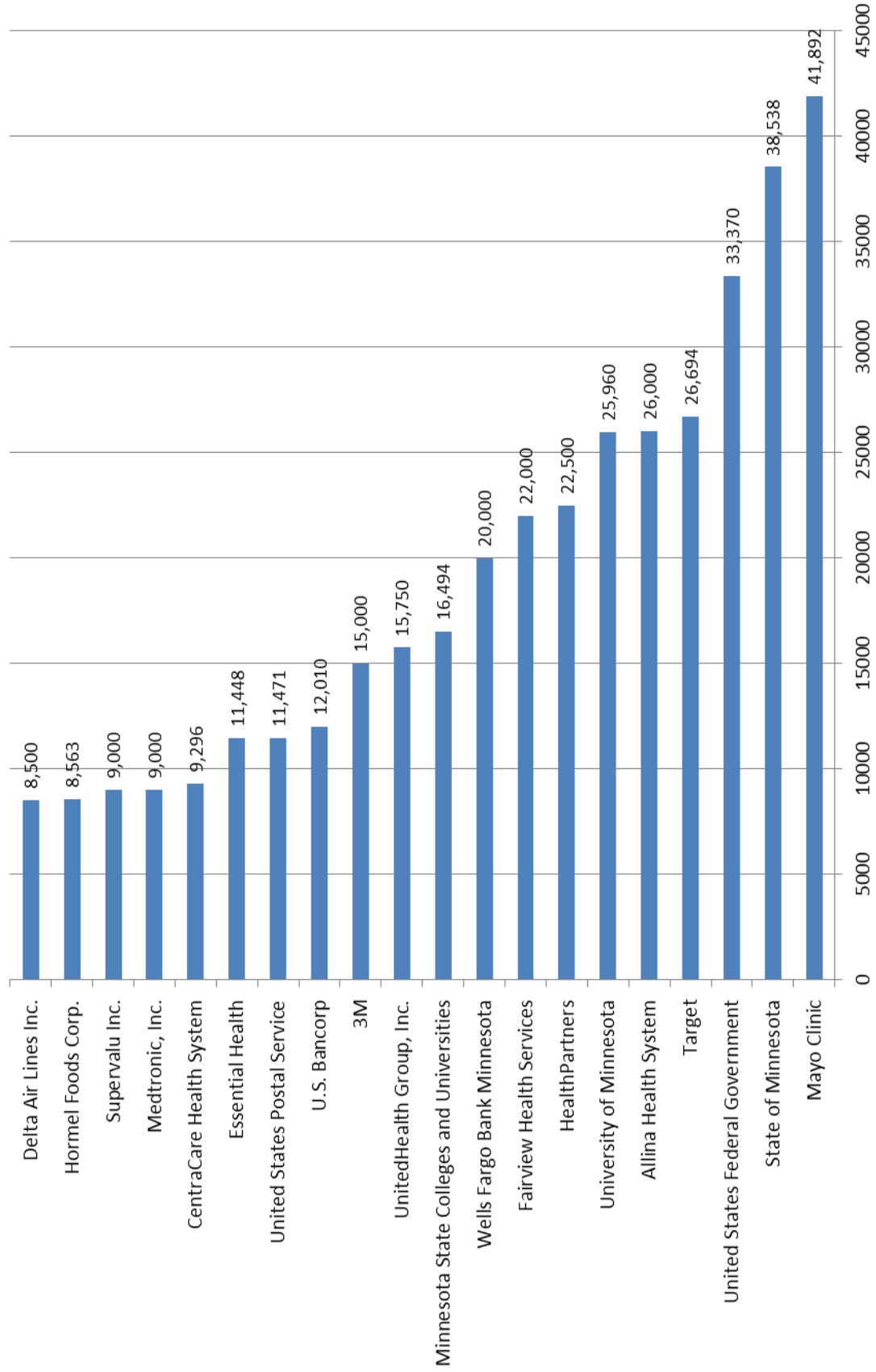
MINNESOTA STATE LOTTERY PLAYER DEMOGRAPHICS



Player demographics have basically remained the same over the years.

Source: Minnesota Gambling Survey
2016
By Minnesota State Lottery and St. Cloud State University

Minnesota Top Employers



Source: Minneapolis-St. Paul Business Journal. Released July 8, 2016

MINNESOTA STATE LOTTERY
Fiscal 2015 Consolidated US Lottery Revenue, Prizes & Government Transfers by GDP*

Lottery	2015 Pop ¹	2014 Gross Domestic Product ²	Consolidated			PC		Consolidated Revenue as a % of GDP	Gov't Transfers as a % of GDP ⁷	Prizes as a % of Revenue	Gov't Transfers as a % of Revenue
			Revenue ³	Prizes ⁴	Gov't Transfers ⁵	Revenue	Gov't				
Arizona	6.8	260,799	750.0	486.6	176.0	\$110	\$26	0.288%	0.067%	64.9%	23.5%
Arkansas	3.0	110,746	408.7	280.5	72.8	\$137	\$24	0.369%	0.066%	68.6%	17.8%
California	39.1	2,113,280	5,524.9	3,501.7	1,364.5	\$141	\$35	0.261%	0.065%	63.4%	24.7%
Colorado	5.5	279,650	538.0	331.5	128.0	\$99	\$23	0.192%	0.046%	61.6%	23.8%
Connecticut	3.6	232,620	1,144.0	707.7	324.4	\$319	\$90	0.492%	0.139%	61.9%	28.4%
Delaware ^{4,5}	0.9	56,652	601.9	109.0	244.0	\$637	\$258	1.062%	0.431%	18.1%	40.5%
D.C.	0.7	105,018	212.5	115.3	55.6	\$316	\$83	0.202%	0.053%	54.3%	26.2%
Florida	20.3	769,662	5,583.3	3,627.9	1,496.4	\$275	\$74	0.725%	0.194%	65.0%	26.8%
Georgia	10.2	435,511	3,903.5	2,528.9	980.5	\$382	\$96	0.896%	0.225%	64.8%	25.1%
Idaho	1.7	57,591	210.2	136.8	45.1	\$127	\$27	0.365%	0.078%	65.1%	21.5%
Illinois ⁶	12.9	680,448	2,837.8	1,823.6	743.9	\$221		0.417%	0.109%	64.3%	26.2%
Indiana	6.6	289,346	1,040.7	671.0	242.7	\$157	\$37	0.360%	0.084%	64.5%	23.3%
Iowa	3.1	152,482	324.8	196.9	74.5	\$104	\$24	0.213%	0.049%	60.6%	22.9%
Kansas ^{4,5}	2.9	132,904	615.1	144.9	162.2	\$211	\$56	0.463%	0.122%	23.6%	26.4%
Kentucky	4.4	171,850	886.9	556.3	236.1	\$200	\$53	0.516%	0.137%	62.7%	26.6%
Louisiana	4.7	215,968	452.5	219.2	184.8	\$97	\$40	0.210%	0.086%	48.4%	40.8%
Maine	1.3	50,979	253.1	165.2	54.7	\$190	\$41	0.496%	0.107%	65.3%	21.6%
Maryland ^{4,5}	6.0	321,288	2,873.7	1,051.5	1,026.2	\$478	\$171	0.894%	0.319%	36.6%	35.7%
Massachusetts	6.8	424,991	5,005.7	3,641.3	985.9	\$737	\$145	1.178%	0.232%	72.7%	19.7%
Michigan	9.9	417,306	2,771.9	1,665.5	799.4	\$279	\$81	0.664%	0.192%	60.1%	28.8%
Minnesota	5.5	288,145	546.9	335.2	135.5	\$100	\$25	0.190%	0.047%	61.3%	24.8%
Missouri	6.1	259,847	1,127.4	755.4	271.3	\$185	\$45	0.434%	0.104%	67.0%	24.1%
Montana ⁶	1.0	39,448	52.3	29.3	12.4	\$51	\$12	0.133%	0.031%	56.0%	23.7%
Nebraska	1.9	99,200	160.0	94.7	37.1	\$84	\$20	0.161%	0.037%	59.2%	23.2%
N. Hampshire	1.3	66,276	281.1	176.4	74.3	\$211	\$56	0.424%	0.112%	62.8%	26.4%
New Jersey	9.0	504,159	3,027.3	1,825.2	960.0	\$338	\$107	0.600%	0.190%	60.3%	31.7%
New Mexico	2.1	83,592	137.0	75.6	41.1	\$66	\$20	0.164%	0.049%	55.2%	30.0%
New York ^{4,5}	19.8	1,279,921	9,156.3	4,396.9	3,110.6	\$463	\$157	0.715%	0.243%	48.0%	34.0%
N. Carolina	10.0	440,333	1,972.2	1,231.2	527.4	\$196	\$53	0.448%	0.120%	62.4%	26.7%
North Dakota ⁶	0.8	48,233	27.0	14.0	6.7	\$36	\$9	0.056%	0.014%	51.9%	24.8%
Ohio ^{4,5}	11.6	532,018	3,776.5	1,875.3	1,095.0	\$325	\$94	0.710%	0.206%	49.7%	29.0%
Oklahoma	3.9	162,377	171.6	87.8	60.9	\$44	\$16	0.106%	0.038%	51.2%	35.5%
Oregon ^{4,5}	4.0	203,788	1,116.9	211.4	547.8	\$277	\$136	0.548%	0.269%	18.9%	49.0%
Pennsylvania	12.8	609,141	3,819.6	2,411.7	1,060.9	\$298	\$83	0.627%	0.174%	63.1%	27.8%
R. Island ^{4,5}	1.1	50,544	866.0	147.4	381.9	\$820	\$362	1.713%	0.756%	17.0%	44.1%
S. Carolina	4.9	174,573	1,401.7	924.1	343.5	\$286	\$70	0.803%	0.197%	65.9%	24.5%
S. Dakota ^{4,5}	0.9	39,833	250.3	29.7	112.1	\$292	\$131	0.628%	0.281%	11.9%	44.8%
Tennessee	6.6	275,826	1,368.5	881.1	347.8	\$207	\$53	0.496%	0.126%	64.4%	25.4%
Texas	27.5	1,467,342	4,529.7	2,858.3	1,242.7	\$165	\$45	0.309%	0.085%	63.1%	27.4%
Vermont	0.6	27,164	111.8	72.7	22.8	\$179	\$36	0.412%	0.084%	65.0%	20.4%
Virginia	8.4	427,451	1,843.9	1,116.6	533.8	\$220	\$64	0.431%	0.125%	60.6%	28.9%
Washington	7.2	390,489	600.3	365.9	141.3	\$84	\$20	0.154%	0.036%	61.0%	23.5%
W. Virginia ^{4,5}	1.8	68,035	1,164.0	106.5	527.4	\$631	\$286	1.711%	0.775%	9.1%	45.3%
Wisconsin ⁶	5.8	268,677	574.6	342.4	167.6	\$100	\$29	0.214%	0.062%	59.6%	29.2%
Wyoming	0.6	37,566	17.5	9.7		\$30		0.047%		55.4%	
Total	305.6	15,123,069	74,039.6	42,335.8	21,159.6	\$242	\$69	0.490%	0.140%	57.2%	28.6%

*Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30)

¹Source: US Census Bureau

²Source: US Bureau of Economic Analysis

³Represents revenue from traditional and VLT/casino games

⁴Does not include VLT/casino prizes

⁵Includes government transfers for VLT/casino operations

⁶Unaudited

Note: If a Lottery's operating statement did not include government transfers, then net income is reported

Source: La Fleur's 2016 World Lottery Almanac